

Overview of the 2016-18 Biennial Budget Chapter 780 (HB 30, as Adopted), 2016 Session

The adopted budget for 2016-18, Chapter 780 of the 2016 Acts of Assembly (HB 30), provides a net increase of \$3,378.3 million GF in the operating budget above the current base, plus \$10.8 million in cash funding for capital outlay. Approximately \$3,410.3 million in additional resources over the base are available for appropriation. The adopted budget assumes an unappropriated balance of \$21.2 million.

Adopted General Fund Budget for 2016-18			
(\$ in millions)			
	<u>FY 2017</u>	<u>FY 2018</u>	<u>2016-18</u>
Resources Available for Appropriation	\$20,426.4	\$20,229.4	\$40,655.8
Ch. 665 Base Budget	\$18,622.7	\$18,622.7	\$37,245.5
Operating Spending	1,716.0	1,662.3	3,378.3
Capital Outlay Spending	<u>10.8</u>	<u>0.0</u>	<u>10.8</u>
Total Appropriations	\$20,349.5	\$20,285.0	\$40,634.6
Unappropriated Balance	\$76.8	(\$55.6)	\$21.2

Revenues

The adopted 2016-18 budget includes \$40.6 billion in general fund resources available for appropriation. The budget includes \$265.3 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 \$81.7 million of tax policy changes, resulting in projected collections of \$38,535.5 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	\$ 265.3
Adjustments to the Balance	680.4
Official GF Revenue Estimate	38,535.5
Transfers	<u>1,174.5</u>
GF Resources Available for Appropriation	\$40,655.8

Spending Increases

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

- \$789.1 million GF to address the increased cost of Medicaid utilization and inflation;
- \$605.5 million GF in FY 2017 for the mandatory deposit to the Revenue Stabilization Fund;
- \$399.5 million GF for the cost of updating the state’s share of rebenchmarking the Standards of Quality for public schools;
- \$193.8 million GF for K-12 public education to reinstate a per pupil allocation from Lottery proceeds;
- \$162.5 million GF for a 2 percent salary increase in FY 2017 for teachers and state-supported local employees; and
- \$155.9 million GF for a 3 percent salary increase in FY 2017 state employees and faculty.

Budget Savings

Major adopted general fund savings include \$37.7 million from several Medicaid cost reduction strategies.

Major Spending in Chapter 780 (HB 30, as Adopted)
(GF \$ in millions)

Major Spending	<u>2016-18</u>
Medicaid Utilization and Inflation	\$ 789.1
Appropriate Deposit to Revenue Stabilization Fund	605.5
K-12: Net Rebenchmarking Cost Updates	399.0
K-12: Reinstate Lottery Per Pupil Allocation	193.8
2% Salary Increase (State-Supported Locals and K-12)	162.5
3% Salary Increase (State and Faculty)	155.9
Fund State Employee Health Insurance Program	143.2
Debt Service for Currently Authorized Projects and Equipment	107.8
DOJ Settlement: Waivers, Redesign, Crisis Services, Rental Sub.	105.0
Higher Ed: Access, Completion, and Degrees	104.0
Fund Actuarial Rates for Retirement (State Employee & K-12) @ 100%	91.0
Deposit to Water Quality Improvement Fund and VNRFCF	61.7
Higher Ed: Undergraduate Financial Aid	48.2
Children's Services Act: Caseload and Expenditure Growth	36.2
GO Virginia: Business-driven, Regional Diversification	36.0
K-12: Cost of Competing Adjustment	34.4
Open Culpeper Correctional Center for Women (255 Positions)	28.4
Debt Service on New Projects	25.9
Higher Ed: Research Initiative (plus \$57.5m in state-supported debt)	22.0
Fully Fund Local and Regional Jail Per Diems	21.5
Foster Care/Adoption and Protective Services	20.8
Land Conservation Activities	20.0
Other HE Research (includes Central Accounts)	18.0
K-12: At-Risk Add-On	14.1
Higher Ed: Community College Workforce (under SCHEV)	12.5
Sheriffs and Jails Salary Compression	12.4
Aid to Localities with Police Departments (599)	11.1
International and Domestic Business Attraction Efforts	10.3
Maintenance Reserve for Buildings, Systems, or Equipment	10.0
K-12: Backfill Literary Fund Revenue	10.0

A summary of significant general fund actions adopted in each major area follows:

Judicial Department. The 2016-18 biennial budget, as adopted, 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, along with \$877,395 GF each year to provide sufficient funding to support a total of 408 circuit and district judgeships. Language is included

authorizing the filling of 19 specific vacant judgeships, which will raise the number of filled judgeships to 408. Another \$250,000 GF the first year is added to update the judicial caseload and staffing study. The budget also includes \$1.6 million GF the first year and \$2.5 million GF the second year for a compensation initiative for district court clerks and deputy clerks, subject to the approval of the Committee on District Courts. And, \$300,000 GF the first year and \$960,000 GF the second year is provided for drug courts that have not previously received state funding, along with \$100,000 each year to test new drug treatment regimens in the drug courts in Norfolk and Henrico County.

Executive Offices. The adopted biennial budget for Executive Offices 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 adopted budget results in a net increase of \$69.4 million GF for the biennium, compared to the base budget. Nongeneral fund appropriations are adjusted by over \$664.3 million over the biennium, primarily driven by increasing costs of providing central services paid through internal service fund transfers. Additional spending includes \$21.5 million GF over the biennium to cover the total estimated cost of the state's share of inmates housed in local and regional jails. Also, \$12.3 million GF for the biennium is included to provide a salary compression adjustment for sworn officers and staff in local sheriff's offices and regional jails, as well as \$5.2 million GF over the biennium to fund career development programs for elected constitutional officers and their staffs. In addition, \$276,087 GF the first year is provided to the Department of Elections for anticipated costs related to the 2016 presidential election.

Agriculture and Forestry. The adopted general fund budget amendments for the Agriculture and Forestry secretariat include increases totaling \$13.0 million GF for the biennium. Major increases include \$1.6 million GF for the Reforestation of Timberlands program, \$0.7 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. Funding for a new Farm Business Development Program is provided to allow VDACS to provide micro-grants of \$5,000 to emerging Virginia farmers. Additionally, language directs planning for the consolidation of food programs from various secretariats to VDACS. Other actions include providing an additional \$2.6 million GF in the biennium for debt service payments to allow the Department of Forestry to lease-purchase approximately \$25.0 million in new firefighting equipment.

Commerce and Trade. The adopted budget reflects a net increase of \$6.8 million GF the first year and \$20.3 million GF the second year. This includes \$36.0 million GF in new spending for GO Virginia, an initiative to foster job growth by encouraging regional collaboration among

business, education and government. Major spending increases also include an additional \$5.2 million GF each year for the Virginia Economic Development Partnership to strengthen and promote economic development initiatives; an increase of \$4.2 million GF for the Governor's Motion Picture Opportunity Fund; and \$3.0 million GF in new funding for the Brownfields Restoration and Economic Development Assistance Fund. Increases in economic development are partially offset by the elimination of the Biofuels Production Grant Fund and by reductions for various economic development performance grants based on the schedules of anticipated payments to occur during the 2016-18 biennium.

In addition, general fund appropriations provide for deposits of \$5.5 million each year to the Housing Trust Fund; \$2.7 million to establish the Virginia Telecommunications Initiative to extend broadband infrastructure to unserved areas of the Commonwealth; and, \$2.0 million in additional funding for the Enterprise Zone Program. The budget also includes an additional \$2.0 million GF for the Virginia Tourism Authority to expand research capabilities, content generation, and tourism marketing.

Public Education. The adopted FY 2016-18 general fund budget for Direct Aid to Public Education totals \$12.1 billion, a net increase of \$278.6 million in FY 2017 and \$571.6 million in FY 2018 million when compared to the base budget.

The adopted budget reflects biennial re-benchmarking of Direct Aid net costs of about \$400.0 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 GF and \$1.1 billion NGF, respectively, over the biennium. In addition, \$10.0 million GF is budgeted to backfill Literary Fund revenues used for teacher retirement costs to better align on-going revenue with expenditures.

The adopted budget reflects several policy changes including: 1) \$193.8 million GF to reinstitute a Lottery per pupil amount allocation; 2) \$134.3 million GF for the state's share of a 2 percent teacher salary increase in FY 2017, 3) \$55.1 million GF 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) \$34.4 million GF to restore a Northern Virginia Cost of Competing Adjustment for support positions, and 5) \$14.1 million GF 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.

Other approved general fund initiatives in K-12 include \$5.0 million for Career and Technical Education credentialing and equipment; \$3.1 million for Governor's Schools tuition increase; \$3.0 million for pre-K public-private partnerships; \$2.8 million to increase the per pupil cost amount for the Virginia Preschool Initiative; \$2.1 million for competitive grants for

alternative teacher compensation; \$1.6 million for the full-time high school program and Virtual Virginia math outreach; \$1.6 million for a 4th through 7th grade STEM program and research study; \$1.3 million for early childhood workforce tuition scholarships and coursework; \$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 adopted budget includes \$5.0 million GF in one-time funding for the transition to computer adaptive testing for math and reading in elementary and middle school grades; \$2.4 million GF for 9 new positions; \$1.8 million GF to support eMedia VA, and several items related to technology, data, and assessments.

Higher Education. The adopted budget provides over \$255.0 million GF in new funding for the biennium for colleges and universities and other higher education entities and centers. A large portion of the new funding, about \$104.0 million GF over the biennium, is allocated to support access, affordability, and degree completion at the institutions (base operations). Additional funding of \$24.1 million GF is granted for undergraduate need-based financial aid each year, with the second year amount unallocated under the State Council of Higher Education for Virginia (SCHEV), pending financial aid reform. Graduate financial aid is supported with an additional \$7.5 million GF over the biennium. Support for research is provided with \$32.0 million GF for initiatives under higher education and an additional \$8.0 million GF for research partnerships with Inova under Central Appropriations. Funding of \$12.5 million GF over the biennium is allocated for workforce certifications in Chapters 326 and 470 of the 2016 Acts of Assembly (HB 66/SB 576) at community colleges, to be administered by SCHEV. Lastly, the budget provides about \$1.0 million per year for the tuition assistance grant (TAG) program. This funding will allow TAG undergraduate awards to increase to \$3,200 per award the first year and \$3,300 per award the second year.

Within the research amounts, \$22.0 million GF cash and \$57.5 million in bonds will be available under the Higher Education Research Initiative and will follow the process envisioned under Chapter 775 of the 2016 Acts of Assembly (HB 1343). The authorization of \$57.5 million in Virginia College Building Authority (VCBA) bonds will fund research equipment and the potential renovation of laboratory space. Also, \$22.0 million GF over the biennium will support incentive packages to attract high-performing researchers with a history of commercialization, and the creation of centers of excellence to allow collaboration and support of research in such areas as biosciences, cyber security, and personalized medicine.

Health and Human Resources. The adopted budget provides a net increase of \$948.5 million GF and \$1.1 billion NGF for the 2016-18 biennial budget. Spending of \$1.2 billion GF is offset by \$215.5 million GF in budget reductions. Mandatory general fund spending of \$922.4 million GF (73 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, spending on Medicaid requires the addition of \$789.1 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 well below average levels. Spending on DOJ Settlement Agreement items totals \$105.0 million GF over the biennium. This 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 service individuals receiving services through the waivers.

New spending in HHR is offset by general fund budget reductions of \$216.0 million. Almost 60 percent of the reductions (\$128.6 million GF) is related to savings to the Medicaid and children's health insurance forecasts, primarily from withholding partial inflation adjustments to Virginia's hospitals; nursing homes; home health agencies and outpatient rehabilitation facilities; lower enrollment of children; the temporary suspension of the federal insurance tax on managed care companies, and increased NGF revenue from the Virginia Health Care Fund.

Finance. Adopted amendments for the Finance Secretariat result in a net increase of \$662.8 million GF for FY 2017 and \$86.1 million GF for FY 2018, compared to the FY 2016 budget approved in Chapter 665 of the 2015 Acts of Assembly. Significant general fund expenditures for the biennium include a mandatory Revenue Stabilization Fund deposit of \$605.5 million in FY 2017, bringing the projected FY 2017 ending balance for the fund to \$845.3 million. The 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.

Natural Resources. The adopted budget includes the appropriation of the statutorily required deposit to the Water Quality Improvement Fund of \$61.7 million GF 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 GF is dedicated to reducing the backlog of approved stream exclusion projects. Other significant appropriations within Natural Resources include \$8.0 million GF each year for the Virginia Land Conservation Fund, and \$1.0 million GF each year for the Battlefield Preservation Fund, consistent with the provisions of §58.1-513, *Code of Virginia*, which stipulates that in any year that the maximum amount of land preservation tax credits are not utilized, the remaining amounts are set aside for other land preservation activities. Separate legislation, Chapters 759 and 769 of the 2016 Acts of Assembly (HB 1344/SB 731), 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. Language is also included to authorize the operation of Natural Bridge as a Virginia State Park, however the Governor is prohibited from accepting any additional lands for operation as state parks unless the General Assembly provides a specific operating appropriation to support the acquisition.

Public Safety and Homeland Security. The 2016-18 biennial budget, as adopted, includes \$28.4 million GF and 255 positions in the Department of Corrections to reopen Culpeper Juvenile Correctional Center as a women's prison as of July 1, 2017, along with \$8.0 million GF to fill vacant security officer positions, and \$3.0 million GF and 11 positions for mental health treatment specialists and programs in district probation offices. Also included is \$9.2 million GF for increased inmate medical costs and a companion amendment to the revenue page recognizing the \$2.5 million GF revenue loss each year resulting from lower rates to be charged for families using the DOC inmate telephone system. Language is added to permit the Department of Juvenile Justice to reallocate savings from closing additional facilities to place juvenile offenders in detention centers and other alternative programs at the local level. This action is related to a project in Chapters 759 and 769 of the 2016 Acts of Assembly (HB 1344/SB 731) authorizing construction of a new state juvenile correctional facility in Chesapeake and planning for construction or renovation of another facility. The adopted budget also includes \$3.5 million GF for pilot programs for treatment or diversion for mentally ill offenders in jail, and \$3.5 million GF for expansion of local community corrections and pre-trial release programs. The budget adds \$11.0 million GF for state aid to localities with police departments (HB 599 of 1979). For State Police, the adopted budget provides \$4.3 million GF to upgrade and maintain information technology systems, along with up to \$5.0 million GF in Central Appropriations to cover unanticipated costs, subject to a prioritized list of IT projects and the associated costs. The first step in creating a new State Police special operations division is also included, with \$3.5 million GF and 20 positions.

Veterans and Defense Affairs. The budget, as adopted, includes a series of amendments in the Department of Veterans Services (DVS) to improve service delivery and strengthen agency administration. These actions include a restructuring of the Virginia Veteran and Family Services (VVFS) program, 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 are physically located at 19 CSBs. The budget includes \$393,494 GF the first year and \$687,684 million GF the second year and 14 positions to make these representatives actual state DVS employees, rather than local employees of the CSBs, assuming a three-year phase-in. The agency anticipates these employees will remain physically located within the CSBs. The first-year funding for the reorganization is included within the budget for the Secretary of Veterans and Defense Affairs, and is subject to the unanimous approval of a report by a working group consisting of the Secretary, the Secretary of Health and Human Resources, and the Director of JLARC, on the implementation of recommendations in the 2015 JLARC report on DVS, concerning steps needed to improve coordination of mental health and rehabilitative services for veterans.

Transportation. The adopted 2016-18 budget for transportation includes a biennial increase of \$854.2 million NGF as well as a series of policy adjustments, including an increase of 240.0 FTE positions at the Department of Transportation. From the additional forecast

revenues, \$140.0 million NGF is earmarked for construction of a third lane on I-66 inside the Beltway to allow the construction project to move forward with tolls on the existing lanes. Additionally, funding totaling \$50.0 million NGF is authorized to be transferred to the Metropolitan Washington Airports Authority intended to lower the cost per enplanement at Dulles International Airport provided the Authority actively retains hub airline service for at least seven years. Included in Chapters 759 and 769 of the 2016 Acts of Assembly (HB 1344/SB 731) is \$350.0 million in appropriation-backed debt for the Virginia Port Authority for facility improvements to Norfolk International Terminal facilities. Finally, language is included in Part 4-14 to permanently amend the *Code of Virginia* to prohibit the tolling of un-tolled components of highways without General Assembly approval, except in several specific instances including the conversion of existing high-occupancy vehicle lanes to toll lanes.

Central Appropriations. Adopted amendments in the Central Accounts result in a net decrease of \$20.6 million GF in FY 2017 and a net increase of \$40.2 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 expenditures include funding in a revenue reserve of \$190.2 million GF over the biennium for a 3 percent salary increase for state employees and faculty, effective November 10, 2016, and a 2 percent salary increase for teachers and state supported local employees, effective December 1, 2016. Also included is the second phase of a salary compression initiative for State Police, effective November 10, 2016, which provides \$6.3 million GF over the biennium. The amounts held in reserve for all compensation adjustments and salary initiatives are contingent upon FY 2016 revenues not falling greater than 1 percent below the official forecast, based on the Comptroller's preliminary fiscal year-end analysis. The costs associated with the compensation initiatives are also offset by savings of \$44.0 million GF over the biennium related to reductions in the employer contributions for the four state VRS plans attributable to the full repayment of the 2010-12 employer contribution deferral.

In addition, the budget includes approximately \$11.5 million GF 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. Also, \$45.6 million GF in FY 2017 and \$91.7 million GF in FY 2018 is provided to fund projected increases in the employer premium for the state employee health insurance program.

The adopted budget also includes \$8.0 million GF the first year allocated for one-time incentive packages to attract high performing researchers, to renovate research labs, and to acquire research equipment in partnership with INOVA and other institutions and private sector entities. Moreover, \$4.0 million GF and \$1.0 million NGF each year is provided for higher education institutions related to interest earned on tuition and fees, credit card purchase rebates and other nongeneral fund revenues.

Capital Outlay. The capital outlay program for FY 2016-18 in Chapter 780 of the 2016 Acts of Assembly (HB 30) totals \$657.7 million from all fund sources. Of this amount, \$10.8 million is general fund cash, and \$243.5 million is from tax-supported bonds. The budget also includes almost \$41.0 million in 9(c) revenue bonds and \$157.7 million in 9(d) revenue bonds. The balance of \$204.6 million is nongeneral fund cash from a variety of agency fund sources. The tax-supported bonds include the following: an allocation of \$184.3 million over the biennium for Central Maintenance Reserve, \$1.7 million for correctional center equipment, and \$57.5 million for lab enhancements and equipment under the Higher Education Research Initiative.

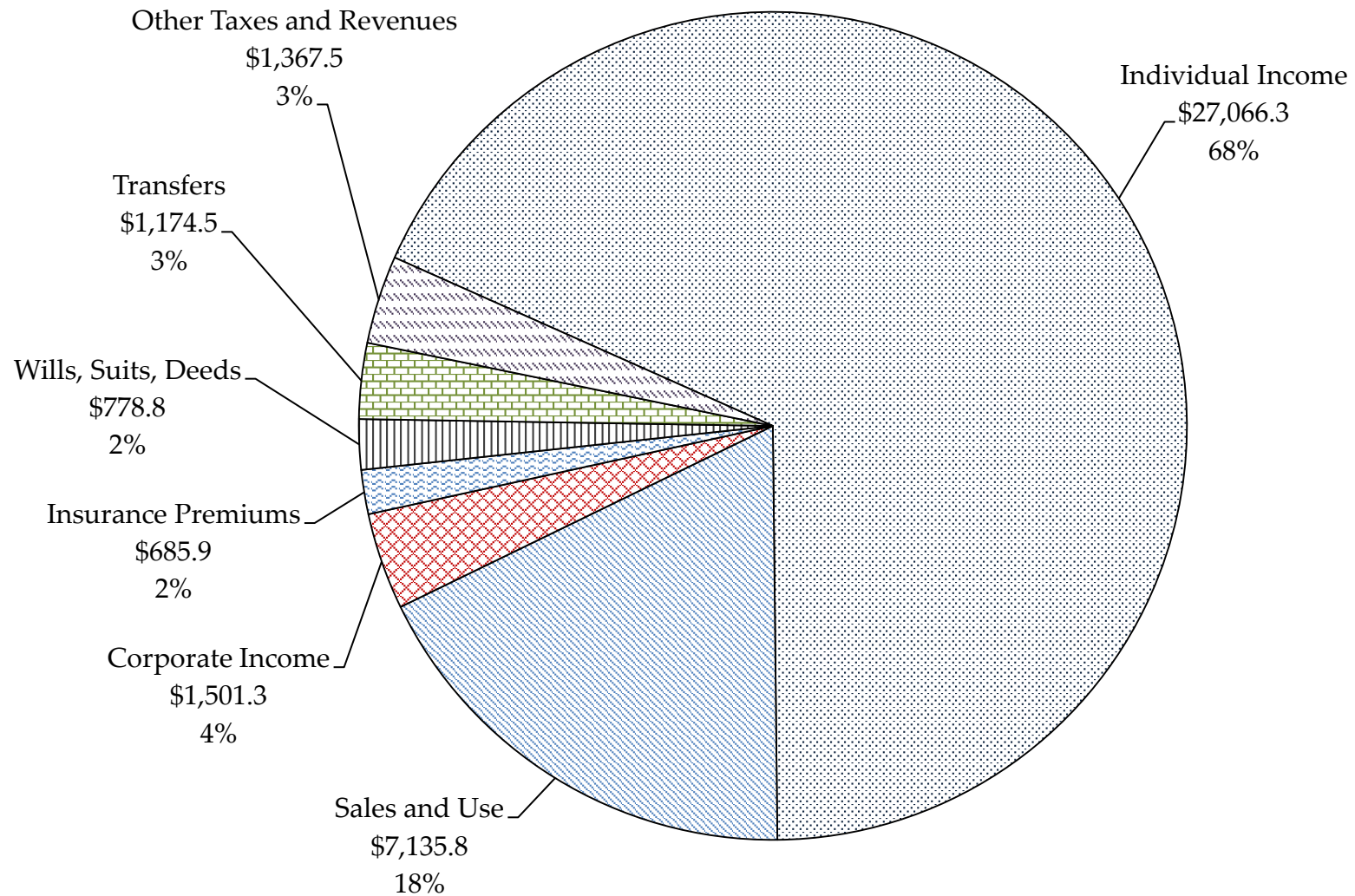
The majority of capital outlay actions were incorporated in Chapters 759 and 769 of the 2016 Acts of Assembly (HB 1344/SB 731). The legislation provides for the appropriation of \$1.78 billion in VCBA/VPBA bond proceeds for higher education and state agency projects, \$12.2 million in bond proceeds for supplements to existing projects, \$15.6 million in bond proceeds for equipment for projects nearing completion, \$59.0 million in VPBA bond proceeds for wastewater improvements for nutrient removal, \$20.0 million in VPBA bond proceeds for stormwater management, and \$350.0 million in VPBA bond proceeds for improvements at the Norfolk International Terminal for the Virginia Port Authority. The legislation restricts bond issuance to \$300.0 million annually with unused amounts to be added to subsequent fiscal years. Funds for construction projects and for planning shall not be released until the all phases of the General Assembly Building projects are authorized for construction. Lastly, Chapter 366 of the 2016 Acts of Assembly (HB 477) provides for \$29.3 million in tax supported debt in FY 2017 to supplement two previously approved projects to construct two veterans' care centers in Northern Virginia and Hampton Roads.

Fines and Fee Collections Based on Local Ordinances. Eliminates language which had set a threshold of 65 percent of total local collections, above which a portion of revenues collected by localities from fines and fees based on local ordinances would be returned to the state. This language had been included in Part 3 of the budget (Section 3-6.05: Deposit of Fines and Fees).

FY 2016-18 General Fund Revenues = \$39.7 Billion

Chapter 780 (HB 30, as Adopted)

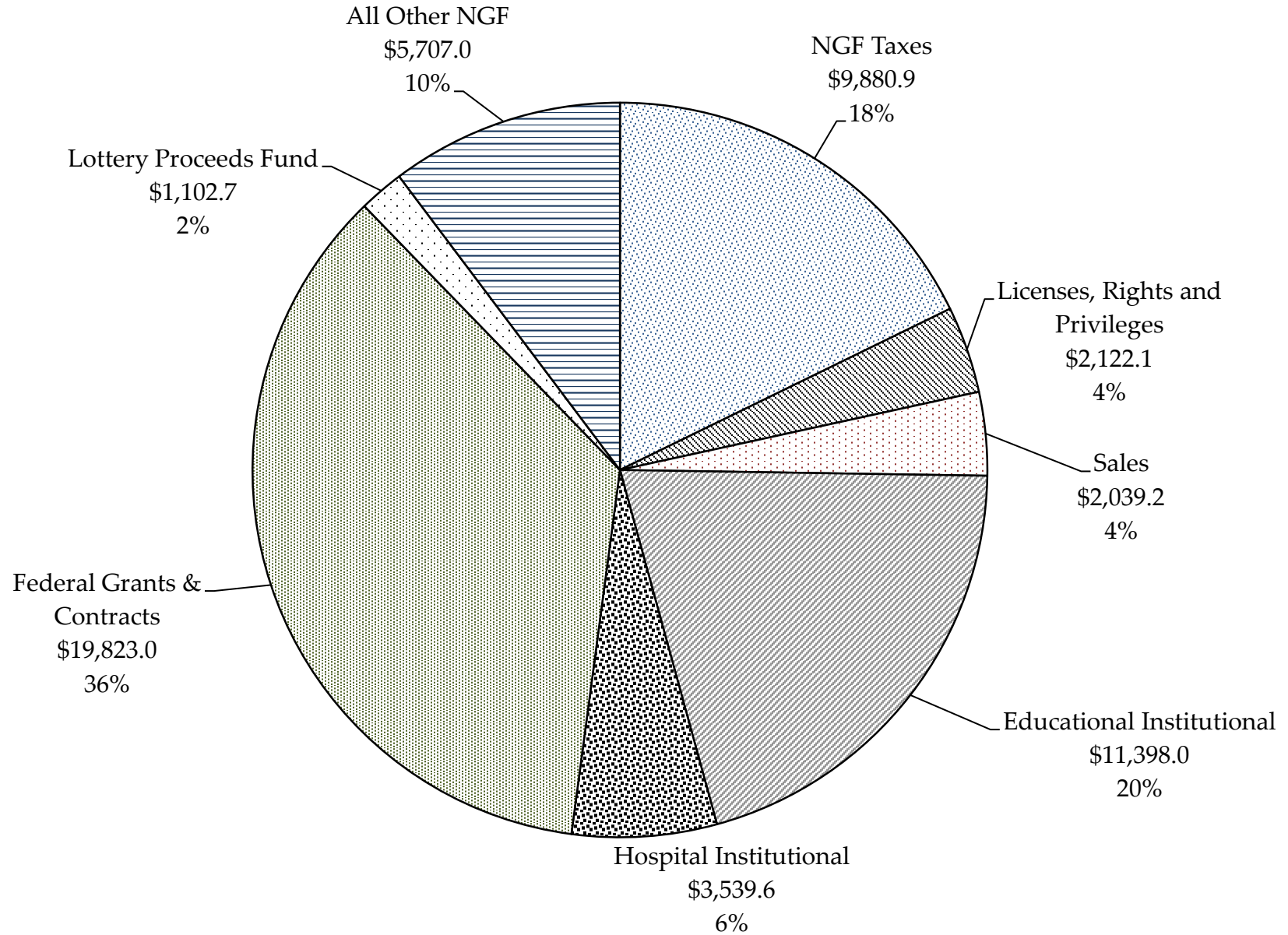
(\$ in millions)



FY 2016-18 Nongeneral Fund Revenues = \$55.6 Billion

Chapter 780 (HB 30, as Adopted)

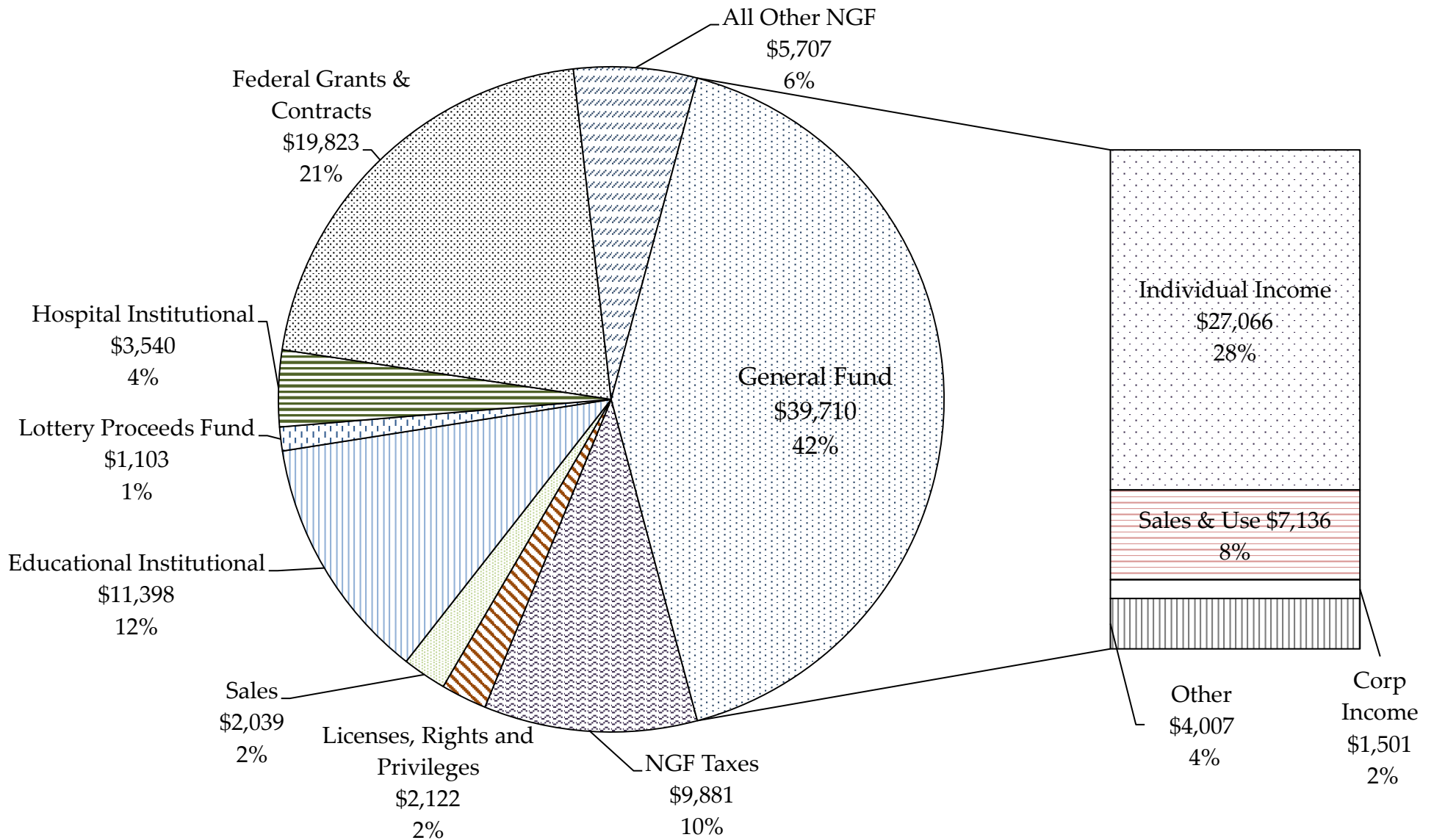
(\$ in millions)



FY 2016-18 Total Revenues = \$95.3 Billion

Chapter 780 (HB 30, as Adopted)

(\$ in millions)



FY 2016-18 GF Operating Budget = \$40,623.8
 Chapter 780 (HB 30, as Adopted)
 (\$ in millions)

