

Overview of the Governor's Recommendations for the 2018-20 Budget

The proposed budget for 2018-20 provides a net increase of \$1,717.0 million GF in the operating budget above the current base budget, plus \$15.0 million in cash funding for capital outlay. Approximately \$1,744.1 million in additional resources over the base are available for appropriation. The introduced budget assumes an unappropriated balance of \$12.1 million.

Proposed General Fund Budget for 2018-20 (\$ in millions)			
	<u>FY 2019</u>	<u>FY 2020</u>	<u>2018-20</u>
Resources Available for Appropriation	\$20,935.8	\$21,517.5	\$42,453.3
Ch.836 Base Budget	\$20,354.6	\$20,354.6	\$40,709.2
Operating Spending	516.6	1,200.4	1,717.0
Capital Outlay Spending	<u>10.0</u>	<u>5.0</u>	<u>15.0</u>
Total Appropriations	\$20,881.2	\$21,560.0	\$42,441.2
Unappropriated Balance	\$54.6	(\$42.4)	\$12.1

Revenues

The proposed 2018-20 budget includes \$42.4 billion in general fund resources available for appropriation. The budget, as introduced, includes \$201.6 million as a projected unspent balance at the end of the 2016-18 biennium, resulting primarily from the revised revenue forecast for FY 2018.

The 2018-20 general fund revenue forecast assumes "economic" growth rates of 4 percent in each year, after taking into account a reduction of \$3.3 million based on proposed federal tax policy changes, and an assumed increase of \$18.5 million from an effort to expand audits of individual tax payers, resulting in projected collections of \$40,988.8 million over the biennium. The forecast assumes that growth will remain steady, but Virginia will continue to 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

(2018-20 biennium, \$ in millions)

Beginning Balance	\$201.6
Adjustments to the Balance	21.5
Official GF Revenue Estimate	40,988.8
Transfers	<u>1,241.4</u>
GF Resources Available for Appropriation	\$42,453.3

Proposed Spending Increases

Major general fund spending initiatives proposed in the 2018-20 biennial budget include:

- \$575.8 million GF to address the increased cost of Medicaid utilization and inflation;
- \$481.0 million GF for the cost of updating the state's share of rebenchmarking the Standards of Quality for public schools;
- \$270.7 million GF for appropriation to the Revenue Cash Reserve established in Chapter 836;
- \$118.2 million GF for the employer share of the state employee health insurance plan premium increases; and
- \$100.7 million GF for a 2 percent salary increase in FY 2020 for teachers, state employees, faculty, and state-supported local employees.

Proposed Budget Savings

Major proposed general fund savings include \$427.5 million from a proposed expansion of Medicaid, and \$47.9 million from capturing savings in Pre-K due to nonparticipation in the program, and \$27.6 million resulting from the closure of two Training Centers.

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

FY 2018-20

Major Spending Proposed

Medicaid Utilization and Inflation	\$575.8
K-12: Update Costs of Standards of Quality	481.0
Revenue Cash Reserve	270.7
State Employee Health Insurance	118.2
2% FY 20 Salary Increase (State, State-Supported, Teachers)	100.7
Children's Services Act	54.2
State Agency IT Costs	50.5
HHR Other Mandated Services (over \$5.0 million each)	50.5
Higher Education Need-Based Financial Aid	45.5
Additional Waiver Slots Required by DOJ Settlement	45.0
Net Additional Debt Costs	39.2
Inmate Medical Costs of Care	38.3
Higher Education: Base Operations	35.1
CSBs: Same Day Access, Prim. Care Screening, Discharge Services	33.1
FAMIS Forecast	27.2
K-12: No Loss, Small Elem. Principals and At-Risk Add-On	26.3
Water Quality Fund VA Nat. Res. Commitment Fund	22.5
Economic Development Grants (Workforce, VIP, VEDIG, Port)	21.6
Assistance to Localities with Police Departments (HB 599 Program)	20.4
Consumer-Directed Attendants Rates and Overtime	19.4
Children's Health Insurance Forecast	18.5
Electronic Health Records	16.2
Higher Education: Continue Research (VRIC)	16.0
Higher Educ./Central Approp: Restore Restructuring Incentives	13.1
"Emergency Response" Initiatives	12.0
Replace Help America Vote Act Funding	10.4
All Other Spending	<u>331.1</u>
Total Spending:	\$2,492.5

Major Savings Proposed

Medicaid Expansion Enhanced Match, SA and MH, and Inmate	(\$427.5)
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Major Spending and Savings Proposed in HB/SB 30, as Introduced

(GF \$ in millions)

	<u>FY 2018-20</u>
Use Lottery Forecast Increase to Supplant GF	(\$80.4)
Capture Pre-K Nonparticipation, Ch. 836 Rate	(47.9)
Training Center Closures	(27.6)
Health Care Fund	(18.7)
VRS Employer Rates	(13.4)
All Other Savings	<u>(96.2)</u>
Total Savings:	(\$711.7)
 Net Spending Adjustments	 \$1,780.8

Executive Offices. The proposed budget for Executive Offices increases by a net \$3.4 million GF, and a net \$10.3 NGF over the biennium. Of the total proposed general fund increases, \$403,000 each year is to increase base operating appropriation in the Consumer Protection Section due to insufficient nongeneral fund appropriations. Of the total nongeneral fund increases, \$500,000 is proposed each year to increase appropriation for the Regulatory, Consumer Advocacy, Litigation and Enforcement Revolving Trust Fund, as well as \$2.7 million the first year and \$3.0 million the second year in appropriation for indirect cost recoveries and federal funds.

Administration. The proposed budget for Administration results in a net increase of \$45.3 million GF for the biennium compared to the base budget. The nongeneral fund appropriations to the Administration agencies are adjusted by over \$1.2 billion over the biennium, primarily driven by establishing an appropriation for the claims and administrative costs associated with the new local health insurance program, pursuant to Chapter 512 of the 2016 Acts of Assembly.

Proposed additional general fund spending includes \$5.2 million and 12.00 FTEs each year in the Department of Elections to continue activities that were previously supported by federal Help America Vote Act (HAVA) grant funding, which will be fully depleted in FY 2018.

Agriculture and Forestry. The proposed general fund for the Agriculture and Forestry secretariat include biennial increases totaling \$5.0 million. After accounting for the distribution of Central Account actions, increases include \$0.1 million GF each year for the operations of the Office of the Secretary, \$0.2 million GF each year for the expansion of the Industrial Hemp Research Program and \$0.2 million the first year for enhancing nursery capacity at the

Department of Forestry. Additional language amendments direct an assessment of funding options for the food safety and restaurant inspection programs and authorize the sale of the Eastern Shore Produce Market.

Commerce and Trade. The proposed FY 2018-20 budget includes a net increase of \$7.9 million GF over the biennium compared to the base budget. New general fund spending items include \$7.5 million GF over the biennium to establish the Virginia Grocery Investment Fund intended to incentivize development of supermarkets and healthy food retailers in underserved communities; \$7.5 million GF for the Virginia Economic Development Partnership to establish a customized workforce recruitment and training incentive program; and \$2.2 million GF to incentivize solar energy and energy storage developments. The introduced budget also recommends additional general fund spending of \$1.3 million in administrative support for GO Virginia, and appropriates \$3.2 million NGF in unused capacity building funds to increase funding for per capita grants. In addition, the budget proposes doubling general fund support for broadband in the Department of Housing and Community Development from \$1.0 million to \$2.0 million GF each year.

Proposed new general fund spending is partially offset by net reductions in the economic development incentives payments holding account of \$2.5 million GF the first year and \$5.2 million GF the second year. The proposed budget includes recommended increases in funding for the Virginia Economic Development Incentive Grant Fund and Virginia Investment Partnership Grant Fund, and planned decreases in deposits to grant funds for the Tranlin project in Chesterfield, the Rolls-Royce facility in Prince George County, and the Advanced Shipbuilding Production Facility Grant Program.

Public Education. The Governor's proposed FY 2018-20 general fund budget for Direct Aid to Public Education totals \$12.6 billion and \$3.6 billion from NGF. This is a net increase of \$206.5 million in FY 2019 and \$309.4 million in FY 2020 million when compared to FY 2018 in Chapter 836 of the 2017 Acts of Assembly. The nongeneral fund revenues have increased by a net of \$184.3 million in FY 2019 and \$174.2 million in FY 2020.

The proposed budget reflects biennial rebenchmarking of Direct Aid net costs of \$481.0 million GF. Rebenchmarking reflects updated salary and other cost data; a projected additional 8,837 students, above the projections in Chapter 836, to 1,257,773 students by FY 2020, which represents enrollment growth of 0.7 percent over two years; and updated Composite Index of Local Ability-to-Pay calculations. The proposed budget also reflects projected increases in Sales Tax revenue and Lottery Proceeds for a revised grand total of \$2.9 billion and \$1.2 billion, respectively, over the biennium. The proposed budget adds \$80.0 million GF to backfill Literary Fund revenue that had previously been used to pay teacher retirement contribution costs. In addition, Virginia Preschool Initiative non-participation savings of \$47.9 million is reflected, based on the same 25.43 percent non-participation rate used in Chapter 836 for FY 2018.

The proposed budget reflects several policy changes including: 1) \$51.3 million GF for the state's share of a 2 percent teacher and support staff salary increase in FY 2020; 2) \$11.5 million GF in FY 2019 for the school divisions that would have received less state funding than in the proposed introduced budget for FY 2018; 3) \$7.7 million GF the second year for the state's share of a full-time principal in every elementary school; 4) \$7.1 million GF to increase the maximum At-Risk Add-On funding range from 13 percent to 14 percent in FY 2020; and 5) \$2.6 million GF to extend the FY 2018 extra funding for the Governor's Schools.

Other proposed initiatives over the biennium in K-12 include: \$1.0 million GF to increase the appropriation for Positive Behavioral Intervention Support; \$1.0 million GF for a new initiative for principal recruitment and retention; \$1.0 million GF for cyber security camps; \$1.0 million GF to procure an automated teacher licensure approval process; and other individual actions totaling fewer than \$1.0 million GF each.

Higher Education. The introduced budget proposes about \$104.5 million GF of new initiative funding for the biennium for colleges and universities and other higher education entities and centers. Over the biennium, about \$35.1 million is recommended to support base adequacy or base operations; \$45.5 million for undergraduate need-based aid; \$4.3 million for technology infrastructure and enhancements; \$3.8 million at the University of Virginia-Wise to enhance academic programs and to attract additional students; and \$1.3 million for cyber-security/cyber-psychology programs and biofuels research at Norfolk State University.

In addition, the budget as introduced proposes \$4.0 million GF over the biennium for the New Economy Workforce Credential Grant and another \$1.8 million in other workforce initiatives. Lastly, interest earnings and credit card rebates (incentives provided to higher education institutions for meeting performance measures under restructuring) have been restored at \$13.1 million over the biennium as appropriated under Central Appropriations.

Finance. Proposed general fund amendments for the Finance Secretariat result in a net increase of \$320.2 million GF over the 2018-20 biennium. The vast majority relates to adding \$50.0 million the first year and \$220.7 million the second year toward a Revenue Cash Reserve. These amounts, combined with a proposed \$121.4 million added in FY 2018 contained within a separate amendment to HB/SB 29, would bring the total for a Revenue Cash Reserve to \$427.1 million GF at the close of the biennium.

Health and Human Resources. The introduced budget proposes a net increase of \$551.5 million GF and \$4.1 billion NGF for the 2018-20 biennial budget. Proposed spending of \$1.1 billion GF is offset by \$513.5 million GF in proposed reductions. Similar to biennial budgets for HHR in previous years, the majority (54 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 October 1, 2018. This proposal accounts for about \$3.0 billion, or 71 percent, of the net increase in nongeneral funds over the biennium.

Mandatory general fund spending of \$746.6 million GF (77 percent of new GF spending in HHR) is primarily related to spending for acute and long-term care services provided through Medicaid, increasing caseload of special education private day placements in the Children's Services Act, and funding related to fulfill the U.S. Department of Justice (DOJ) Settlement Agreement. In total, proposed spending on Medicaid requires the addition of \$575.8 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. The general fund share of the Medicaid forecast is partially offset by \$18.7 million in additional revenue to the Health Care Fund. Overall growth rates in Medicaid are expected to fall during the biennium to well below average levels.

The proposed budget includes \$152.9 million GF in discretionary spending in HHR. Out of this spending, 49 percent is related to increasing community-based behavioral health services, addressing census issues at state behavioral health facilities, and implementation of electronic health records at those facilities. Other expenditures include \$20.4 million to increase rates and provide overtime and training to consumer directed attendants in the Medicaid program.

New spending in HHR is offset by proposed general fund budget reductions of \$513.5 million GF. Almost 75 percent of the reductions (\$383.4 million GF) are related to savings due to the expansion of the Medicaid program per the Affordable Care Act, which results in savings in indigent care, community-based behavioral health services, and other savings in publicly funded programs.

Natural Resources. The proposed budget for Natural Resources includes few new or expanded initiatives. The largest general fund increase is the appropriation of the statutorily required deposit to the Water Quality Improvement Fund of \$22.5 million in FY 2019. Of this deposit, \$2.0 million is set aside for the Reserve Fund, and \$19.8 million is designated for the agricultural best management practices and technical assistance through the soil and water conservation districts. A series of nongeneral fund amendments at the Department of Conservation and Recreation and at the Department of Game and Inland Fisheries are supported by funds associated with two environmental mitigation settlements. The third major proposal authorizes \$20.0 million of VPBA bonds to support the Alexandria Comprehensive Sewer Overflow project.

Public Safety and Homeland Security. The proposed FY 2018-20 budget would add a total of \$204.0 million in GF and \$204.0 million in NGF over the biennium in technical and non-technical adjustments for public safety agencies. Proposed funding includes \$1.0 million for the Secretary of Public Safety to assess and upgrade the Department of State Police's Commonwealth Link to Interoperable Communications (COMLINC). HB/SB 30 also proposes \$105.5 million NGF for staffing, merchandise, and systems upgrades at the Department of Alcoholic Beverage Control. The proposal assumes \$44.1 million in GF savings at the Department of Corrections, due

to the proposed Medicaid expansion, which is offset by a \$38.3 million increase in the GF appropriation for inmate medical costs at the Department of Corrections. Proposed funding also includes \$3.0 million GF for staffing costs and equipment to address case backlogs at the Department of Forensic Science.

Veterans and Defense Affairs. The budget, as introduced, includes \$2.1 million NGF and 29 positions for veterans care centers to reflect increases in Medicaid and Medicare revenues for the Roanoke and Richmond Centers, as well as \$12.3 million NGF and 240 positions in FY 2020 to reflect the opening of new veterans care centers in the City of Virginia Beach and Fauquier County. The proposed budget also includes \$542,000 GF and five positions to open new benefits veterans benefits services offices in the City of Virginia Beach and Fairfax County. The budget, as introduced, also includes \$338,000 GF to create two new positions focused on veteran entrepreneurship and programs for women veterans.

Technology. The introduced budget includes additional proposed appropriations of \$22.0 million NGF in each year of the biennium to reflect increase vendor pass through charges based on approved changes to Internal Service Fund rates as well as forecast agency utilization rates. In addition, four positions are recommended to support IT security services used by customer agencies. Finally, the proposed budget would increase direct appropriations for disentanglement costs by approximately \$5.4 million NGF over the biennium and increase the line of credit used to finance transition activities to \$95.0 million.

Transportation. The proposed 2018-20 budget for transportation includes a biennial increase of \$1,587.6 million NGF and a proposed increase of 92.00 FTE positions. Major policy proposals include the increase in three regional transportation taxes to support capital improvements for the Washington Metropolitan Area Transit Authority, and the authorization of \$110.0 million in transportation bonds to finance transit capital improvements in FY 2020. Additionally, \$20.0 million in debt is authorized for VDOT Capital Outlay needs to free up a like amount of Commonwealth Transportation Fund revenues to undertake design and preliminary engineering work for the widening and dredging of the Norfolk Harbor and Elizabeth River channels. At the Department of Motor Vehicles, language authorizes the imposition of a \$10.00 one-time per credential fee for the issuance of federal REAL ID compliant credentials. A \$20.7 million line of credit is included in Part 3 of the budget to fund the up-front costs of the project and 71.00 FTE positions are requested to support the associated workload increases. The only increase in GF appropriations within the Transportation secretariat is to fund \$2.0 million each year for the Port of Virginia Economic Development Zone Grant program which has been funded out of the Commonwealth Opportunity Fund.

Central Appropriations. Proposed amendments in Central Accounts result in a net decrease of \$239.7 million GF over the biennium compared to the base appropriations in FY 2018. The primary reason for the net reduction is the distribution to the line agencies of funding for salary actions and employee benefit programs provided in FY 2018.

Significant expenditure proposals include the addition of \$118.3 million GF over the biennium to reflect the adjustment in the employers' share of state employee health plan premiums based on projected growth in health care costs, enrollment updates and actual 2017 health insurance expenditures. An additional \$13.8 million GF is proposed to cover the employees' share of health care plan premium increases over the biennium. The rates reflect projected cost increases of approximately 6 percent the first year, and 8.5 percent the second year.

The proposed budget also includes \$49.4 million GF for a partial year, 2 percent salary increase for state employees and state-supported local employees in the second year. The proposed raise would be effective November 10, 2019 for state employees, and December 1, 2019 for state-supported local employees. This figure does not include a proposed 2 percent salary increase for SOQ funded K-12 school positions, which totals \$51.3 million GF, and assumes an effective date of December 1, 2019. The proposed salary supplement for K-12 SOQ funded positions is contained within the Direct Aid to Public Education portion of the proposed budget. The total amount included for base salary adjustments for state employees, state-supported local employees and teachers in the proposed budget is \$101.0 million GF the second year.

Independent Agencies. The proposed budget for the Independent Agencies reflects a small general fund increase of just over \$0.1 million over the biennium and nongeneral fund increase of \$741.4 million over the biennium. The proposed general fund increase is for an increase in the funding to administer the Volunteer Firefighters and Rescue Squad Workers' Service Award Fund. The proposed increase in nongeneral funding is primarily related to adding \$350.0 million each year to establish an appropriation for the Virginia Lottery for prizes awarded to lottery winners and commissions and incentives paid to lottery retailers.

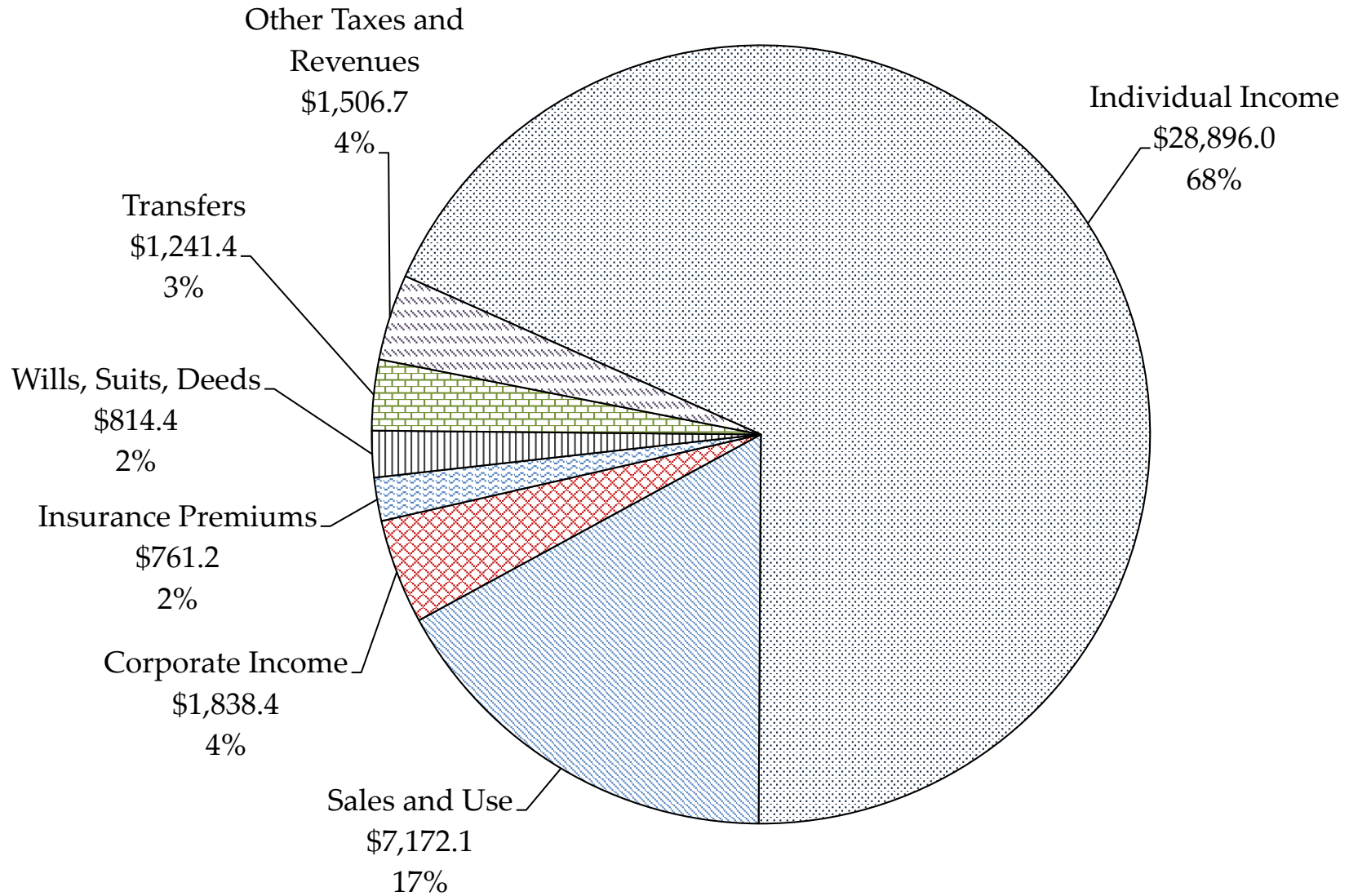
Capital Outlay. The proposed capital outlay program for FY 2018-20 totals \$974.0 million from all fund sources. Of this amount, \$15.0 million is general fund cash, and \$453.7 million is from tax-supported bonds. The introduced budget also includes \$21.0 million in 9(c) revenue bonds and \$260.7 million in 9(d) revenue bonds. The balance of \$223.6 million is nongeneral fund cash from a variety of agency fund sources.

The general fund cash is allocated under Central Capital Outlay for the detailed planning of five additional projects during the 2018-20 biennium. The tax-supported bonds include an allocation of \$252.0 million over the biennium for Central Maintenance Reserve, \$52.1 million in equipment supplements for capital projects expected to be completed during the biennium, \$51.6 million for a new 2018 Capital Construction Pool (this pool includes \$20.0 million for the City of Alexandria under the Combined Sewer Overflow Matching Fund), \$45.4 million in previous pool supplements, \$20.0 million for Department of Transportation projects (this is part of a swap for cash that will be used to plan dredging related to the Port in the Hampton Roads area), and \$32.6 million for five new stand-alone projects at agencies.

FY 2018-20 General Fund Revenues = \$42.2 billion

HB/SB30, as Introduced

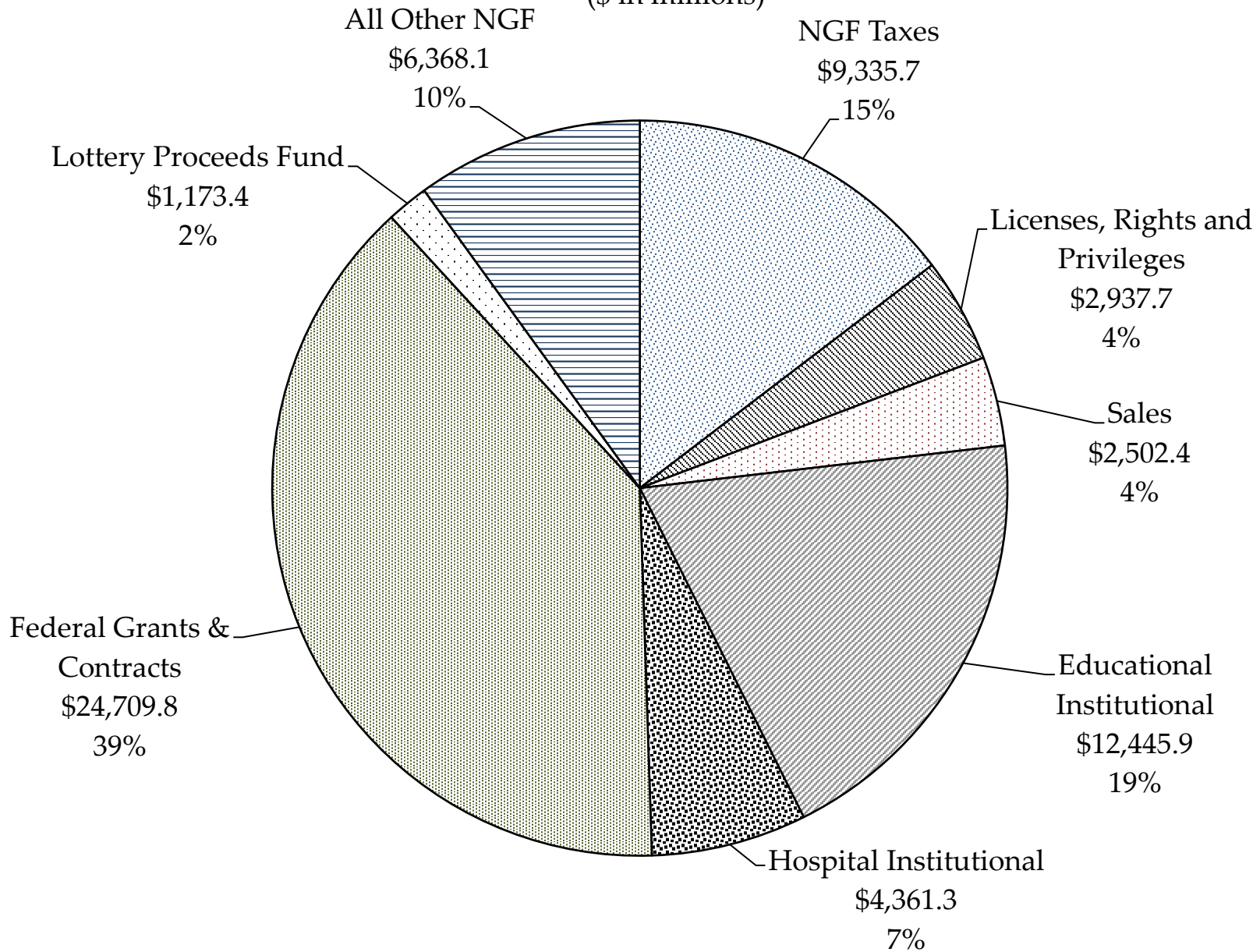
(\$ in millions)



FY 2018-20 Nongeneral Fund Revenues = \$63.8 billion

HB/SB30, as Introduced

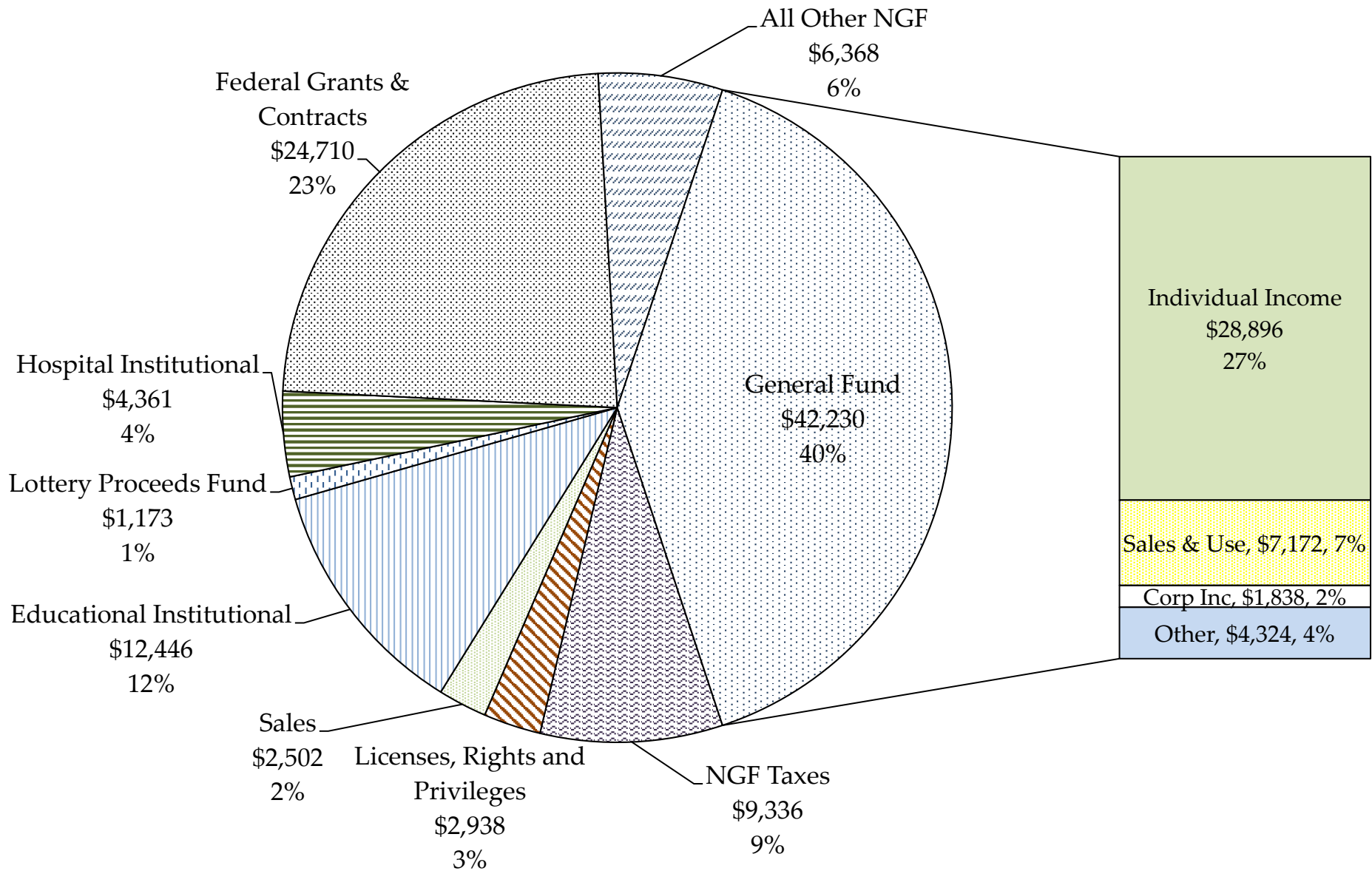
(\$ in millions)



FY 2018-20 Total Revenues = \$106.1 billion

HB/SB30, as Introduced

(\$ in millions)



FY 2018-20 GF Operating Budget = \$42.4 Billion

HB/SB 30, as Introduced

(\$ in millions)

