

Overview of the 2018-20 Biennial Budget Chapter 2, 2018 Special Session I

The adopted budget for 2018-20 provides a net increase of \$1,924.0 million GF in the operating budget above the current base budget, plus \$0.1 million in cash funding for capital outlay. \$42,635.5 million in GF resources are available for appropriation. The adopted budget assumes an unappropriated balance of \$2.1 million.

Adopted General Fund Budget for 2018-20 (\$ in millions)			
	<u>FY 2019</u>	<u>FY 2020</u>	<u>2018-20</u>
Resources Available for Appropriation	\$21,028.8	\$21,606.7	\$42,635.5
Ch.836 Base Budget	\$20,354.6	\$20,354.6	\$40,709.2
Operating Spending	635.9	1,288.1	1,924.0
Capital Outlay Spending	<u>0.1</u>	<u>0.0</u>	<u>0.1</u>
Total Appropriations	\$20,990.7	\$21,642.7	\$42,633.4
Unappropriated Balance	\$35.2	(\$36.0)	\$2.1

Revenues

The adopted 2018-20 budget includes \$42.6 billion in general fund resources available for appropriation. The budget, as adopted, includes \$212.4 million as a projected unspent balance at the end of the 2016-18 biennium, resulting primarily from the revised revenue forecast for FY 2018, as well as unexpended general fund appropriations and other balances from FY 2017.

The 2018-20 general fund revenue forecast assumes growth rates of 4.4 percent in FY 2019 and 4 percent in FY 2020, after taking into account the impacts of enacted legislation, tax compliance initiatives, and higher than expected tax collections. Changes include a reduction of \$3.3 million based on conformity with federal tax policy changes; an assumed increase of \$29.2 million from a planned expansion of tax audits; and, an increase of \$26.2 million from continuing limits on the Historic Rehabilitation Tax Credit and the Land Preservation Tax Credit. The forecast also includes an increase in net collections of \$60.0 million each year to reflect higher than expected collections, primarily in individual income tax withholding.

General Fund Resources Available for Appropriation

(2018-20 biennium, \$ in millions)

Beginning Balance	\$212.4
Adjustments to the Balance	21.5
Official GF Revenue Estimate	41,149.8
Transfers	<u>1,252.0</u>
GF Resources Available for Appropriation	\$42,635.7

Spending Increases

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

- \$533.8 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;
- \$91.0 million GF for additional appropriation to the Revenue Cash Reserve established in Chapter 836 of the 2017 Acts of Assembly;
- \$118.2 million GF for the employer share of the state employee health insurance plan premium increases; and
- \$131.5 million GF for the state’s share of a 3 percent salary increase for teachers and support staff, and \$124.3 million for a 2 percent FY 2020 increase for state employees, faculty, and state-supported local employees as well as 2 percent for merit increases (state employees).

Budget Savings

Major general fund savings include \$371.0 million from 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 in Chapter 2

(GF \$ in millions)

FY 2018-20

Major Spending

Medicaid Utilization and Inflation	\$533.8
K-12: Update Costs of Standards of Quality	481.1
K-12: 3% Teachers and Support Staff Salary Increase	131.5
2% FY 20 Salary Increase (State, State-Supported), Plus 2% Merit	124.3
State Employee Health Insurance	118.2
Revenue Cash Reserve	91.0
State Agency IT Costs	50.5
HHR Other Mandated Services (over \$5.0 million each)	50.5
Targeted Salary Actions	49.3
Additional Waiver Slots Required by DOJ Settlement	45.0
Children's Services Act	43.9
CSBs: STEP-VA Services, Discharge Services	40.1
Net Additional Debt Costs	39.2
Inmate Medical Costs of Care	38.3
Higher Education: Continue Research (VRIC), CyberX Initiative	36.0
Higher Education Need-Based Financial Aid	29.3
Higher Education: Degree Production	28.4
FAMIS Forecast	27.2
Water Quality Fund VA Nat. Res. Commitment Fund	22.5
Assistance to Localities with Police Departments (HB 599 Program)	20.4
Stormwater Assistance Fund	20.0
Children's Health Insurance Forecast	18.5
Economic Development Grants (Workforce, VIP, VEDIG)	17.6
Higher Education: Other Operating Support	17.5
Growth and Opportunity Fund (GO Va.) Grants	15.0
Electronic Health Records	14.4
K-12: Enrollment Loss, and At-Risk Add-On	13.2
Higher Educ./Central Approp: Restore Restructuring Incentives	13.1
"Emergency Response" Initiatives	12.0
K-12: Early Childhood Initiatives	11.1
Replace Help America Vote Act Funding	10.4

Major Spending and Savings in Chapter 2

(GF \$ in millions)

	<u>FY 2018-20</u>
Major Savings	
Medicaid Expansion Enhanced Match, SA and MH, and Inmate	(\$371.0)
K-12: Use Lottery Forecast Increase to Supplant GF	(\$80.4)
K-12: Capture Pre-K Nonparticipation, Ch. 836 Rate	(47.9)
Training Center Closures	(27.6)
Health Care Fund	(18.7)
VRS Employer Rates	(13.4)

Executive Offices. The adopted budget for Executive Offices increases by a net \$3.4 million GF, and a net \$9.0 million NGF over the biennium. Of the total general fund increases, \$403,000 each year is to increase base operating appropriation in the Consumer Protection Section in-lieu-of nongeneral fund appropriation. In addition, \$280,000 is provided to fill the position of Special Assistant to the Governor for Coastal Adaptation and Protection, pursuant to Chapters 722 and 723 of the 2018 Acts of Assembly (HB345/SB265).

Of the total nongeneral fund increases, \$2.7 million the first year and \$3.0 million the second year in appropriation is for indirect cost recoveries, federal funds, and federal pass-through funds to execute associated programs.

Administration. The adopted budget for Administration results in a net increase of \$47.3 million GF for the biennium, compared to the base budget. The nongeneral fund appropriations to the Administration agencies are adjusted by over \$2.1 billion over the biennium, primarily driven by transferring appropriation and establishing the operational purpose and authority for the Virginia Information Technologies Agency (VITA) as an agency under the Administration Secretariat, due to the elimination of the Technology Secretariat. A portion of funding and administrative oversight responsibility for the state's information technology infrastructure was also transferred to the Commerce and Trade Secretariat.

In addition, \$1.0 billion in nongeneral fund appropriation over the biennium is provided, which is related to an optional statewide pooled health insurance program for employees of political subdivisions, pursuant to Chapter 512 of the 2016 Acts of Assembly. However, sufficient local participation in the program was not achieved, resulting in abandonment of the program,

and therefore the appropriation included in the adopted budget related to the program is not required. It is assumed that the appropriation will be properly adjusted administratively.

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 Help America Vote Act (HAVA) federal grant funding, which was fully depleted in FY 2018.

Agriculture and Forestry. The adopted general fund budget for the Agriculture and Forestry secretariat include net increases totaling \$5.7 million GF for the biennium. Increases include \$0.2 million GF each year for the expansion of the Industrial Hemp Research Program, \$0.1 million GF each year to the Beehive Grant Fund, and \$0.2 million the first year for enhancing nursery capacity at the Department of Forestry. Budget language authorizes the Virginia Racing Commission to regulate wagering on pre-recorded horse racing. 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 adopted FY 2018-20 budget includes a net increase of \$44.6 million GF over the biennium compared to the base budget. New general fund spending items include an increase of \$15.0 million GF over the biennium to fund grants through GO Virginia; \$7.5 million GF for the Virginia Economic Development Partnership to establish a customized workforce recruitment and training incentive program; and \$5.4 million GF to increase economic development marketing and site development activities. The budget also provides additional general fund spending of \$1.3 million in administrative support for GO Virginia, and transfers the Innovation and Entrepreneurship Investment Authority from the Technology secretariat to Commerce and Trade. In addition, the budget quadruples general fund support for broadband in the Department of Housing and Community Development from \$1.0 million GF to \$4.0 million GF each year.

New spending is partially offset by net reductions in the economic development incentives payments holding account of \$2.8 million GF the first year and \$8.4 million GF the second year. The budget includes decreases in deposits to grant funds for the Tranlin project in Chesterfield, the Rolls-Royce facility in Prince George County, the Advanced Shipbuilding Production Facility Grant Program, and the Virginia Jobs Investment Program.

Public Education. The adopted FY 2018-20 general fund budget for Direct Aid to Public Education totals \$12.7 billion. This is a net increase of \$243.1 million GF in FY 2019 and \$421.3 million GF in FY 2020 when compared to FY 2018 in Chapter 836.

The adopted budget reflects biennial rebenchmarking of Direct Aid net costs of \$481.0 million GF. Rebenchmarking reflects updated salary and other cost data as of FY 2016; a projected additional 8,837 students, above the projections in Chapter 836, to 1,257,773 students by FY 2020, which represents an enrollment increase of 0.7 percent over two years; and updated Composite Index of Local Ability-to-Pay calculations (Tax Year 2015). The adopted 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 adopted 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 adopted budget reflects several policy changes including: 1) \$132.0 million GF in FY 2020 for the state's share of a 3 percent teacher and support staff salary increase; 2) \$91.5 million to increase the Supplemental Lottery Per Pupil Allocation to 40 percent of Lottery Proceeds; 3) \$7.1 million GF to increase the At-Risk Add-On funding increment from 1 to 13 percent instead to 1 to 14 percent; 4) \$6.1 million GF in FY 2019 for Small School Division Enrollment Loss funding; 5) \$4.6 million GF to increase the Virginia Preschool Initiative (VPI) per pupil amount plus \$4.6 million GF to support credentials of provisionally-licensed VPI teachers and several other items related to early childhood education; and 6) other individual actions totaling fewer than \$1.5 million each.

Higher Education. The budget provides about \$120.6 million GF of new initiative funding for the biennium for colleges and universities and other higher education entities and centers. Over the biennium, about \$28.4 million is included for degree production; \$5.7 million to support base operations; \$4.4 million for operations and maintenance funding for new facilities; \$29.3 million for undergraduate need-based aid; \$4.3 million for technology infrastructure and enhancements; and \$20.0 million for a new research initiative called Cyber-X with Virginia Tech serving as the lead institution.

In addition, the budget includes \$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. Approved general fund amendments for the Finance Secretariat result in a net increase of \$145.3 million over the 2018-20 biennium. Significant general fund appropriation increases for the biennium include adding \$45.0 million each year toward a Revenue Cash Reserve. These amounts, combined with a proposed \$121.4 million added in FY 2018 contained within a separate action in Chapter 1 of the 2018 Special Session I Acts of Assembly (HB 5001), bring the total for the Revenue Cash Reserve to \$247.4 million GF. Language also directs 100 percent of fiscal year 2018 surplus revenues, less any necessary, statutory deposits to the Revenue Stabilization Fund and the Water Quality Improvement Fund, to the Revenue Cash Reserve.

Health and Human Resources. The adopted budget provides a net increase of \$594.7 million GF and \$4.9 billion NGF for the 2018-20 biennial budget. Spending of nearly \$1.1 billion GF is offset by \$497.7 million GF in proposed reductions. Similar to biennial budgets for HHR in previous years, the majority (53 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 the expansion of 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 January 1, 2019. In addition, a hospital provider assessment is imposed to generate the state match for expanded Medicaid coverage under the ACA along with an additional assessment to increase Medicaid hospital rates. The expansion of Medicaid along with the hospital provider assessment accounts for about \$3.9 billion, or 78 percent, of the net increase in nongeneral funds over the biennium.

Mandatory general fund spending of \$862.7 million GF (79 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 be below the long-term average level over the biennium.

The adopted budget includes \$139.8 million GF in discretionary spending in HHR. Out of this spending, 44 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 \$9.9 million to increase rates for agency and consumer directed attendants in the Medicaid program.

New spending in HHR is offset by proposed general fund budget reductions of \$513.5 million GF. About 75 percent of the reductions (\$370.6 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 largest general fund increases in the adopted budget for Natural Resources is the appropriation of the statutorily required deposit to the Water Quality Improvement Fund (WQIF) of \$22.5 million and a \$20.0 million GF appropriation in the first year for the Stormwater Local Assistance Fund. Out of the WQIF 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. Additional deposit to the WQIF of \$2.6 million GF each year are also appropriated. 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.

Public Safety and Homeland Security. The adopted budget adds a total of \$208.3 million GF and \$204.7 million NGF for FY 2019-20 in technical and non-technical adjustments for public safety agencies. Major funding items include \$103.3 million NGF for staffing, merchandise, and systems upgrades at the Alcoholic Beverage Control Authority, as well as additional funding for civilian enforcement generated by projected revenues from fee increases. Due to the estimated savings for inpatient medical care resulting from Medicaid Expansion, the Department of Corrections' appropriation for inmate medical costs were reduced by \$38.4 million GF. This reduction is offset by an increase of \$38.3 million GF to account for projected medical increases. The funding also includes \$2.5 million GF for eight new analyst and research positions at the Department of Forensic Science, as well as financing for new testing equipment to address case backlogs in several sections. The Department of State Police is authorized a total of \$8.1 million GF in new funding, which includes an additional special operations team for the Sixth Division, the establishment of an electronic summons system pilot in the Seventh Division, and financing the procurement of two new helicopters.

Veterans and Defense Affairs. The adopted budget includes \$2.1 million NGF and 29.0 positions for veterans care centers to reflect increases in anticipated workloads and Medicaid and Medicare revenues for the Roanoke and Richmond Centers, as well as \$12.3 million NGF and 240.0 positions in FY 2020 to reflect the opening of new veterans care centers in the City of Virginia Beach and Fauquier County. The 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 also includes \$434,000 GF and to create two new positions focused on veteran entrepreneurship and programs for women veterans. Language in the budget extends the encroachment land acquisition program until 2020.

Technology. The adopted budget eliminates the Office of Technology along with the role of the Secretary of Technology. Further action is taken to reassign the two agencies within the abolished Secretariat. The Innovation and Entrepreneurship Investment Authority is transferred to the Office of Commerce and Trade and the Virginia Information Technologies Agency is transferred to the Office of Administration.

Transportation. The adopted 2018-20 budget for transportation includes a biennial increase of \$1,520.0 million NGF and 63.00 FTE positions. Major policy actions include the appropriation of regional transportation revenues to support capital improvements for the Washington Metropolitan Area Transit Authority. A capital outlay authorization of \$320.0 million is provided for the widening and dredging of the Norfolk Harbor and Elizabeth River channels. 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 related to the dredging project. At the Department of Motor Vehicles, the vehicle titling fee is increased from \$10 to \$15 which is expected to generate \$13.0 million in annual revenues for the Department. Finally, 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 42.00 FTE positions are authorized to support the associated workload increases.

Central Appropriations. Adopted amendments in the Central Accounts result in a net decrease of \$129.9 million GF over the biennium compared to the base appropriations in FY 2018. The primary reasons for the net reduction are technical adjustments and the distribution to the line agencies of funding for salary actions and employee benefit programs provided in FY 2018.

Significant expenditures 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. The rates reflect projected cost increases of approximately 6 percent the first year, and 8.5 percent the second year.

The adopted budget also includes \$173.6 million GF for salary adjustments, including \$124.3 million GF for a second year, full year 2 percent salary increase for state employees and state-supported local employees, effective June 10, 2019 (for the July 1, 2019 paycheck) and July 1, 2019, respectively, as well as an additional 2 percent merit-based salary increase for state employees with three or more years of continuous state service, effective June 10, 2019. Of the \$173.6 million GF, \$49.3 million GF is for several targeted compensation actions for various state employee groups, including select Department of Behavioral Health and Developmental Services staff, Department of Corrections and Department of Juvenile Justice correctional officers, and Marine Police, all effective January 10, 2019 (for the February 1, 2019 paycheck), and Deputy Sheriffs, effective February 1, 2019.

The figure of \$173.6 million GF does not include a 3 percent salary increase for SOQ funded K-12 school positions, which totals \$131.4 million GF, and assumes an effective date of July 1, 2019. The adopted salary supplement for K-12 SOQ funded positions is contained within the Direct Aid to Public Education portion of the budget. The total NGF amount included for base salary adjustments and targeted initiatives for state employees, state-supported local employees, and teachers over the biennium is \$305.0 million.

Independent Agencies. The adopted budget for the Independent Agencies reflects a small general fund decrease of approximately \$0.1 million over the biennium, and nongeneral fund increase of \$744.6 million over the biennium. The general fund decrease reflects a reduction in appropriation for the State Corporation Commission's management of the federal health benefit exchange to reflect actual expenditures, and is net of an increase in funding for the Virginia Retirement System's administration of the Volunteer Firefighters and Rescue Squad Workers' Service Award Fund. The increase in nongeneral funding is primarily related to adding \$350.0 million each year to establish appropriation for the Virginia Lottery for prizes awarded to lottery winners and commissions and incentives paid to lottery retailers.

Capital Outlay. The adopted capital outlay program for FY 2018-20 totals \$1.4 billion from all fund sources. Of this amount, \$120,000 is general fund cash and \$1.0 billion is from tax-

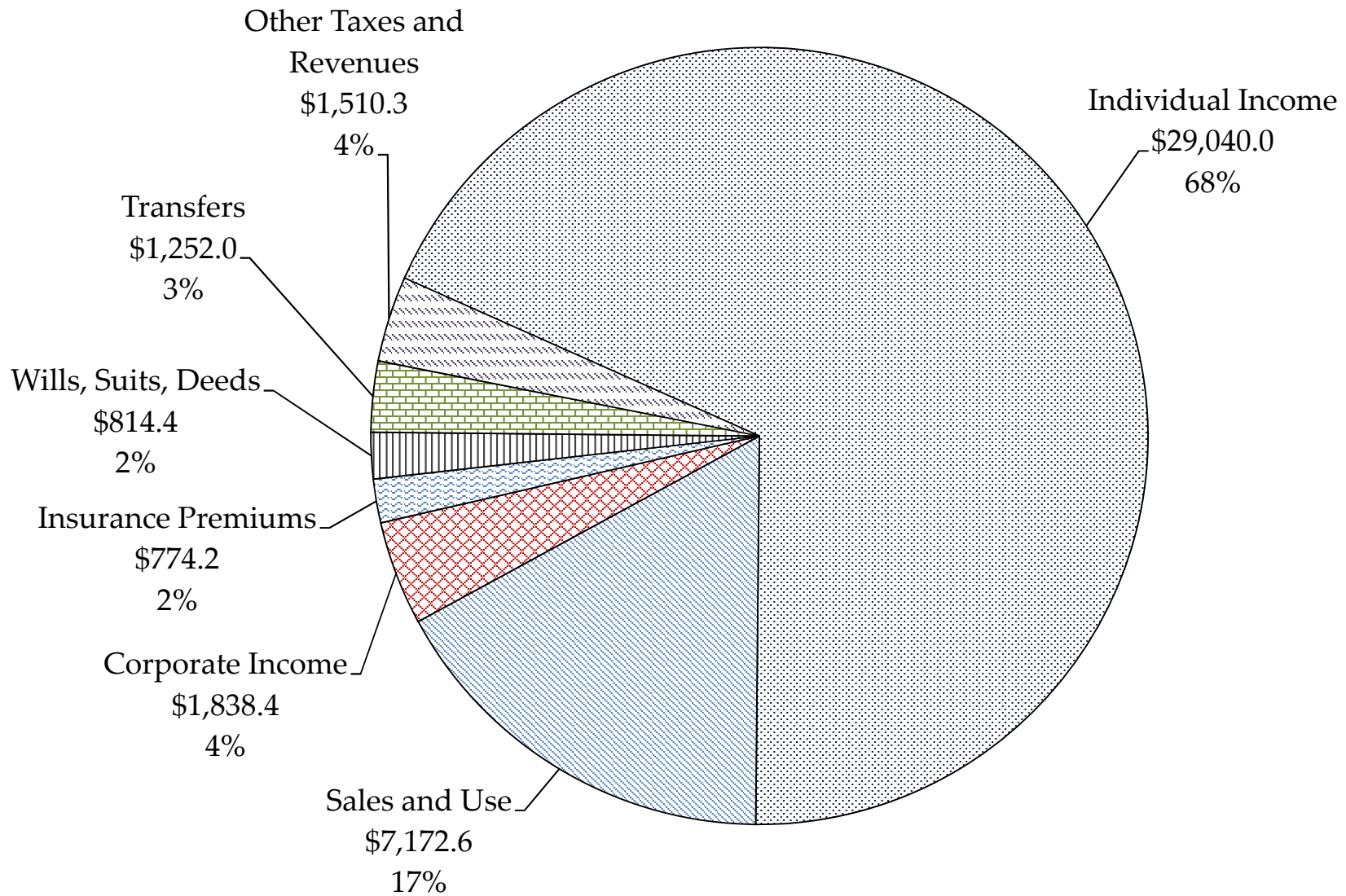
supported bonds. The budget also includes \$21.0 million in 9(c) revenue bonds and \$185.2 million in 9(d) revenue bonds. The balance of \$239.3 million is nongeneral fund cash from a variety of agency fund sources.

The tax-supported bonds include an allocation of \$257.1 million over the biennium for Central Maintenance Reserve; \$60.0 million in equipment supplements for capital projects expected to be completed during the biennium; \$216.5 million for a new 2018 Capital Construction Pool; \$90.3 million in previous pool supplements; \$350.0 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 plus an additional \$330.0 million for the actual Port project); and \$28.0 million for four new stand-alone projects at agencies.

FY 2018-20 General Fund Revenues = \$42.4 billion

Chapter 2 (HB 5002, as Adopted)

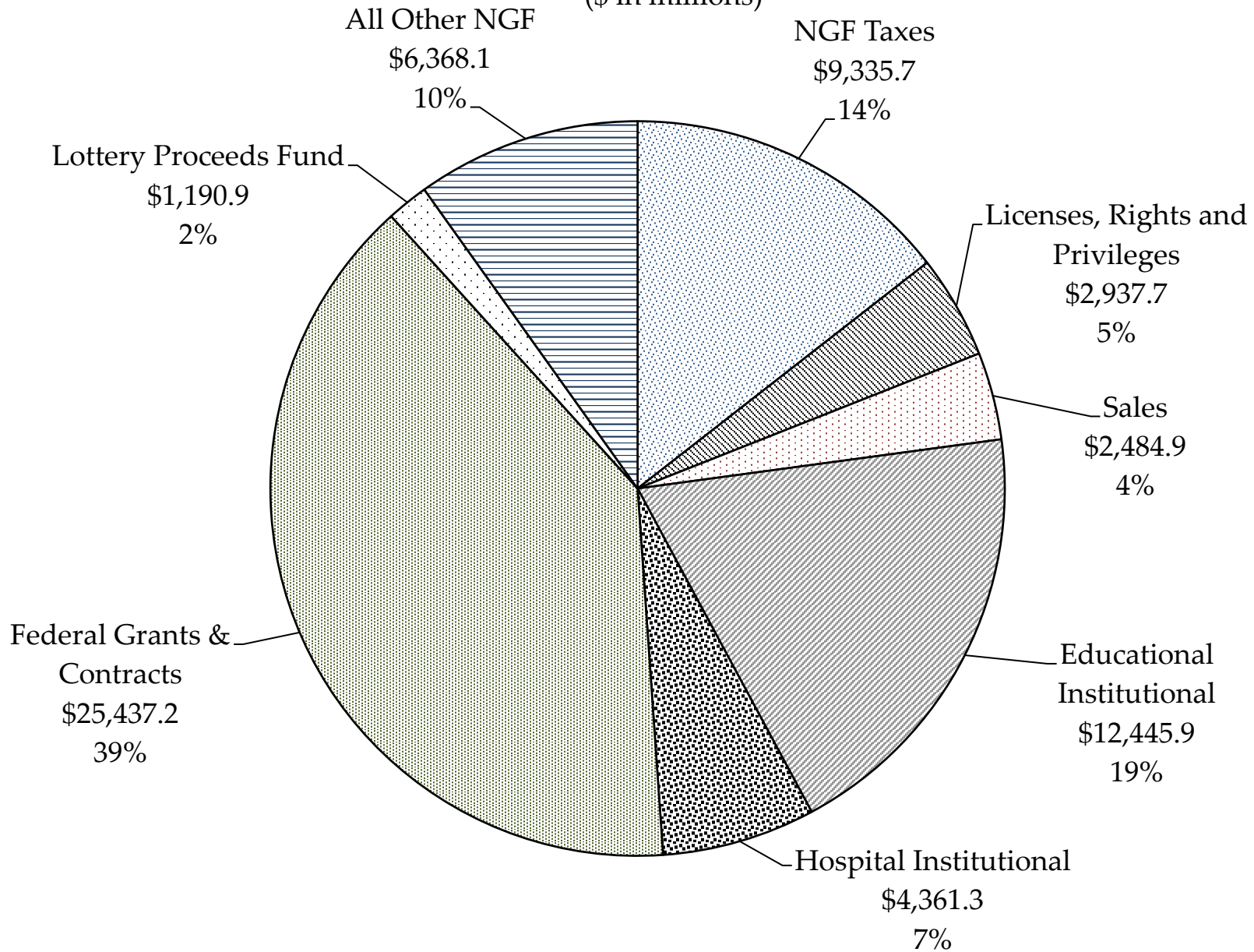
(\$ in millions)



FY 2018-20 Nongeneral Fund Revenues = \$64.6 billion

Chapter 2 (HB 5002, as Adopted)

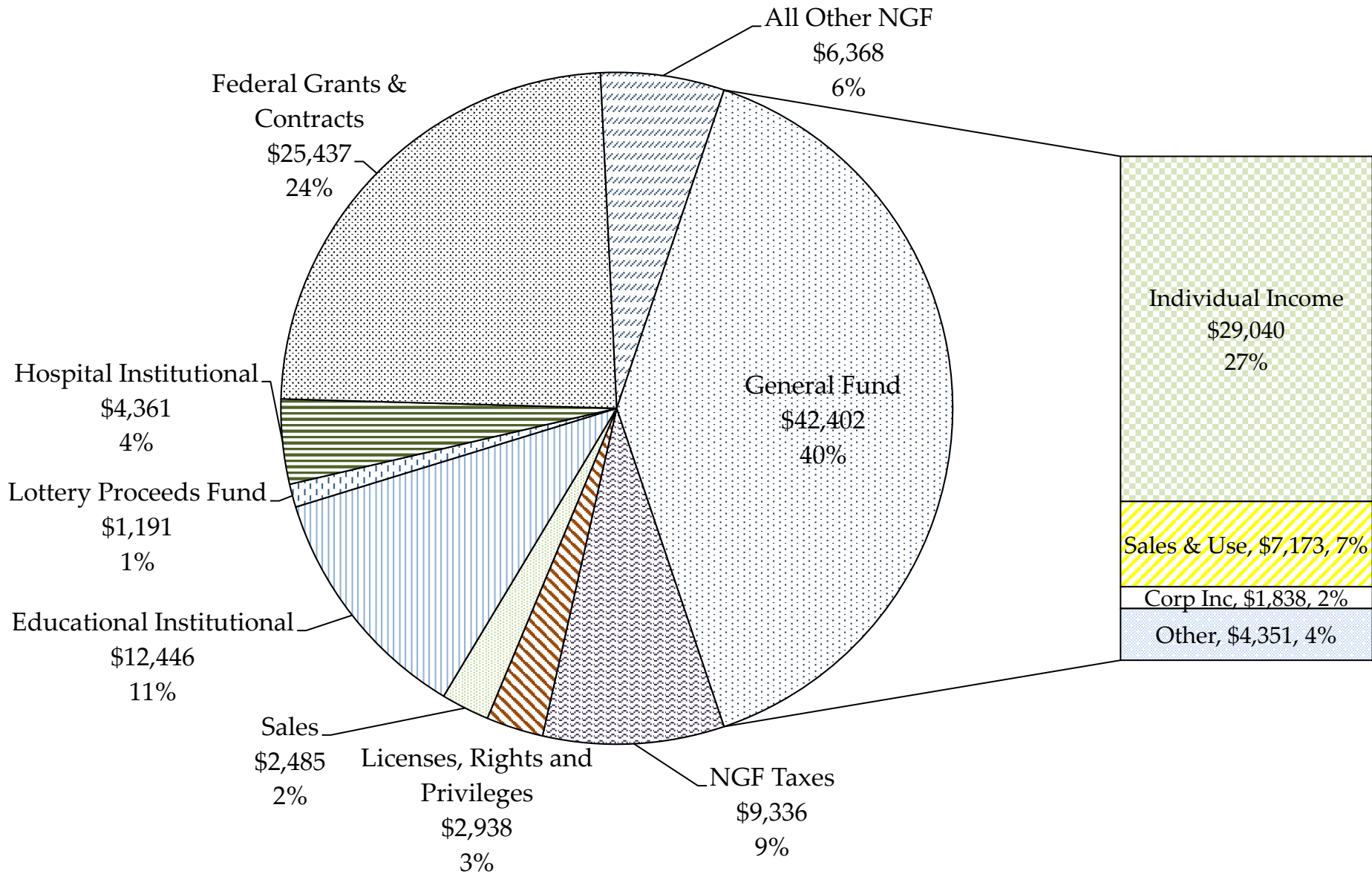
(\$ in millions)



FY 2018-20 Total Revenues = \$107.0 billion

Chapter 2 (HB 5002, as Adopted)

(\$ in millions)



FY 2018-20 GF Operating Budget = \$42.6 Billion

Chapter 2, (HB 5002, as Adopted)

(\$ in millions)

