

Overview of Proposed Amendments to the 2020-22 Budget HB 1800/SB 1100

Proposed amendments to the 2020-22 biennial budget reflect upward adjustments in both resources and proposed spending as compared to Chapter 56 of the 2020 Acts of Assembly, Special Session 1 (HB 5005). Assumed revenue adjustments reflect about \$1.3 billion in base forecast increases and net reductions of \$43.0 million in proposed and assumed tax policy decisions. Therefore, additional resources available for appropriation in the FY 2020-22 biennium totals approximately \$1.3 billion.

Amendments to the 2020-22 Budget HB 1800/SB 1100, as Introduced (GF \$ in millions)			
	<u>FY 2021</u>	<u>FY 2022</u>	<u>2020-22</u>
GF Resources, Chapter 56, 2020 SS1	\$23,553.1	\$22,827.7	\$46,380.8
Net Resource Adjustments	<u>684.3</u>	<u>573.1</u>	<u>1,257.4</u>
Available Resources	\$24,237.5	\$23,400.8	\$47,638.2
GF Appropriations, Chapter 56, 2020 SS1	\$22,709.9	\$23,368.8	\$46,078.6
Net Spending Adjustments	<u>39.2</u>	<u>1,469.3</u>	<u>1,508.5</u>
Total Proposed Appropriations	\$22,749.0	\$24,838.1	\$47,587.1
Unappropriated Balance	\$1,488.4	(\$1,437.3)	\$51.1

Resources

HB 1800/SB 1100 includes \$47,638.2 million in general fund resources available for appropriation. General fund growth rates assumed in the budget are 1.2 percent in FY 2021 and 3.3 percent in FY 2022 (excluding transfers). These growth rates have been revised from Chapter 56 of the 2020 Acts of Assembly, Special Session 1 (HB 5005). Based on the advice of Joint Advisory Board of Economists (JABE) and the Governor's Advisory Council on Revenue Estimates (GACRE), the Governor's proposed base forecast increases general fund revenues \$689.7 million in FY 2021 and \$552.7 million in FY 2022 (net resources include other adjustments).

The introduced budget also includes net reductions of \$43.0 million associated with proposed and assumed tax policy adjustments, including partial conformity with provisions of

the federal Coronavirus Aid, Relief, and Economic Security Act (explained further in the Resources section of this summary).

In total, the proposed revisions to the FY 2020-22 resources contained in HB 1800/SB 1100 include \$1.26 billion more in general fund resources than that assumed in Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005). The resource adjustments reflect a \$1.2 billion increase in the general fund revenue forecast and net transfer additions of \$58.0 million. There are no adjustments needed to the beginning balance. As proposed, the amendments contained in HB 1800/SB 1100 would leave an unappropriated balance of \$51.1 million at the close of FY 2022.

Details on revenues, adjustments to general fund balances and transfers, as well as proposed tax policy changes, can be found in the Resources section of the summary.

Appropriations

As a result of additional resources available and a year-end balance of \$302.2 million for FY 2021, net general fund spending adjustments total \$1,508.5 million against Chapter 56. Major general fund spending items include:

- \$650.0 million for a deposit to the Revenue Reserve Fund;
- \$513.5 million for K-12 No Loss Funding for Local School Divisions;
- \$141.8 million for a K-12 sales tax revenue update and general fund dollars to replace previous COVID-19 Relief Fund NGF support;
- \$100.0 million for a payment to the Virginia Retirement System to reduce unfunded liabilities;
- \$97.8 million for a state and state-supported local employee bonus in the second year;
- \$80.1 million for a 2 percent bonus for teachers and support staff in the second year;
- \$89.3 million for the Department of Health to support mass vaccination efforts;
- \$78.9 million for COVID-19 disaster response;
- \$50.0 million for intercity passenger rail service;
- \$40.7 million for the Virginia Housing Trust Fund; and
- \$36.0 million for the G3 Community College Initiative.

Proposed new spending is offset by spending reductions totaling approximately \$930.0 million. Savings items are largely driven by forecast and enrollment changes and include:

- \$404.1 million from revised K-12 enrollment projections,
- \$245.3 million from Medicaid Forecast savings due to enhanced federal match rates;
- \$59.1 million from Health Care Fund revenue and cash balances;
- \$51.9 million from K-12 Lottery Proceeds; and
- \$49.8 million in assumed debt service savings.

As proposed, the amendments contained in HB 1800/SB 1100 would leave an unappropriated balance of \$51.1 million at the close of the FY 2022. Major spending and savings items are detailed in the table below.

Major Spending and Savings in HB 1800 / SB 1100, as Introduced
(General Fund \$ in millions)

	<u>FY 2021-22</u>
Major Spending Proposed	
Revenue Reserve Deposit	\$650.0
K-12: No Loss Funding to Local School Divisions	513.5
VRS Payment to Reduce Unfunded Liabilities	100.0
State and State-Supported Local Employee Bonus (2nd Year)	97.8
VDH: Support for Mass Vaccination Efforts	89.3
K-12: Sales Tax Revenue Update	88.9
K-12: Teacher and Support Positions 2% Bonus (2nd Year)	80.1
K-12: Use GF for COVID-19 Relief Payments	52.9
COVID-19 Disaster Response	78.9
DRPT: Intercity Passenger Rail Service	50.0
DHCD: Virginia Housing Trust Fund	40.7
G3 Community College Initiative	36.0
Higher Ed: Restore Undergraduate Financial Aid	30.3
Statewide Agency Information Technology Costs	26.8
K-12: Additional School Counselors (Ratio of 1:325)	26.6
Marijuana Expungement and Related Legislation	25.0
VDH: Support for COVID-19 Communications and Media	19.0
Medicaid Utilization and Inflation (2nd Year)	17.9
ELECT: Replace Virginia Election and Registration Info. System	16.7
NSU/VSU/VSU Ext: Restore Prior Reductions	16.1
DHCD: Virginia Telecommunication Initiative	15.3
DOC: Inmate Medical Care	14.3
DCR: Virginia Natural Resources Commitment Fund	13.6
DEQ: Restore Air, Land and Water Protection Funding	12.0
K-12: Restore VPI Per Pupil Amount Increase	11.1
Plan for Monument Avenue's Future	10.8
K-12: English as a Second Language Update	10.7
VDH: Cooperative Health Budget Formula Update	10.2
GMU/ODU: Restore Enrollment Funding	10.0
VCU: Restore Massey Cancer Center Cuts	10.0
VEC: Unemployment Insurance Customer Service	9.7
State Police Vehicle Purchases	9.5
Foster Care Prevention Services	9.2
Slavery and Freedom Heritage Site	9.0
SCHEV: Tuition Assistance Grants Restoration	7.9
VEC: Interest on Federal Cash Advances for Unemployment	7.5
State Psychiatric Hospitals - COVID-19 Surveillance	6.4
State Police Information Technology Transition	6.4
EDIP: Technology Development Grant Program	5.6

Major Spending and Savings in HB 1800 / SB 1100, as Introduced
(General Fund \$ in millions)

	<u>FY 2021-22</u>
Pharmacy Costs at State Psychiatric Hospitals	\$5.3
Court of Appeals Additional Judges and Support Staff	5.1
VEDP: Virginia Business Ready Sites Program	5.0
VEC: Integrate Federal CARES Act Programs	5.0
K-12: Restoration Early Childhood Educator Incentive Program	5.0
DCR: Project Harmony	5.0
VDOT: Development of Multi-Use Trails	5.0
Reserve for Cost of Legislation in 2021 Session	5.0
All Other Spending Items	<u>134.2</u>
Total:	\$2,420.3
 Major Savings Proposed	
K-12: Update Student Enrollment Projections (FM and ADM)	(404.1)
DMAS: Medicaid Forecast (Enhanced Federal Match Savings)	(245.3)
DMAS: Health Care Fund Revenue and Cash Balance	(59.1)
K-12: Lottery Proceeds	(51.9)
Debt Service Savings	(49.8)
K-12: Update English as Second Language Enrollment	(30.9)
K-12: Lottery Funded Programs Costs Update	(27.4)
DMAS: Children's Health Insurance Programs	(14.6)
DMAS: Medicare Premium Savings	(7.4)
Children's Services Act Caseload	(5.1)
DMAS: Involuntary Mental Commitment Caseload	(5.0)
K-12: Update Remedial Summer School Participation	(4.6)
K-12: Categorical Programs Update	(3.7)
DMAS: Enhanced Federal Match Savings for State Facilities	(2.9)
All Other Savings Items	<u>(17.8)</u>
Total:	\$(929.6)
 Net Spending Adjustments	 \$1,490.7

Judicial Department. The proposed amendments for the Judicial Department agencies result in a net general fund decrease of \$8.6 million the first year and a net increase of \$4.9 million the second year.

Significant general fund increases include \$5.1 million over the biennium to provide for judicial and operational staffing to support potential legislation in the 2021 Session to expand the jurisdiction of the Court of Appeals, and \$1.5 million the second year to restore funding for the

Virginia State Bar to hire up to 20 additional housing attorneys. These increases were offset by \$10.3 million in reductions that reflect the movement of approved reductions contained in Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005), in Central Appropriations to the agency budget.

Executive Offices. The proposed budget for Executive Offices increases by \$1.3 million GF over the biennium. Of the recommended general fund increase, a total of \$1.1 million and 8.00 FTE positions are proposed the second year for legislation that may be introduced during the 2021 Session including \$806,898 and 6.00 FTE positions for the Office of the Attorney General to support legislation expanding the jurisdiction of the Court of Appeals as well as \$268,000 and 2.00 FTE positions for potential legislation impacting the Virginia Human Rights Act. An additional \$25,000 the second year is proposed in the Secretary of the Commonwealth for operating costs associated with a LGBTQ advisory board, to be considered through legislation in the 2021 Session.

Administration. The proposed budget for Administration results in a net increase of \$1.1 million GF for the biennium. Significant general fund increases include \$16.7 million the first year for the replacement of the Virginia Election and Registration Information System (VERIS) and a total of \$10.3 million over the biennium to restore previously unallotted and eliminated funding for constitutional officer staffing; salary adjustments; and, technology enhancements. General fund proposed decreases include \$28.5 million over the biennium to reflect approved reductions in Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005), that were moved from Central Appropriations to agency budgets.

Nongeneral fund adjustments include \$60.4 million the second year to adjust internal service fund appropriations for vendor pass-through rates, \$13.0 million over the biennium for the data center relocation in the Virginia Information Technologies Agency (VITA), and \$342,000 and 2.00 FTE positions the second year for the Office of the Chief Data Officer. Nongeneral fund reductions include \$2.5 million the first year and \$3.6 million the second year due to the cancellation of an initiative to enhance security at state-owned buildings.

Agriculture & Forestry. The proposed amendments for the Agriculture and Forestry agencies result in a decrease of \$1.4 million the first year and a net increase of \$510,832 GF the second year. The largest single item is \$600,000 GF the second year for the Department of Agriculture and Consumer Services (VDACS) to establish a Virginia Agriculture Food Assistance Program. In addition, a total of \$1.0 million GF is proposed the second year to fund the Department of Forestry's Watershed Implementation Plan III plan and the restoration of funding to establish a hardwood habitat reforestation program.

Commerce and Trade. The Governor's proposed amendments include net general fund increases of \$69.1 million over the biennium. The budget proposes an additional \$40.7 million GF in increased support for the Virginia Housing Trust Fund including additional funds to

support mortgage and rental assistance in the first year. The Governor also proposes an additional \$22.5 million GF for the Virginia Employment Commission to support and enhance the unemployment insurance program including \$10.0 million GF in one-time support to cover costs associated with the increase in staffing necessary to process the high volume of unemployment insurance claims as a result of the pandemic; \$7.5 million GF for estimated interest on federal cash advances; and, \$5.0 million GF for one-time costs to incorporate CARES Act programs into the new unemployment insurance system.

The proposed budget also recommends an increase of \$9.9 million GF in economic development incentives payments; \$5.0 million GF in additional funding for the Virginia Economic Development Partnership to increase funding for the Business Ready Sites Program; and, \$3.3 million GF to restore previously unallotted funding in the second year for the Eviction Prevention and Diversion Program at the Department of Housing and Community Development. Other non-technical changes include \$30.0 million NGF and 10 positions to administer federal Coronavirus Relief Funds; \$3.0 million GF for the Main Street program; and, \$1.5 million GF for the Virginia Occupational Safety and Health program.

Public Education. The proposed amendments for Direct Aid to Public Education result in a net decrease of \$133.2 million GF below Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005), plus \$51.9 million NGF in additional Lottery Proceeds. This net amount reflects \$405.1 million GF in approved reductions in Chapter 56; \$433.0 million GF in reductions from technical updates and other cost and participation updates; and, \$704.9 million GF in proposed policy changes. Of the technical updates, lower student enrollment in fall 2020 due to COVID-19 resulted in reductions of \$404.1 million GF when updating Direct Aid accounts for actual fall membership and projected Average Daily Membership in each year.

The proposed amendments include \$513.6 million over the biennium to ensure that no school division receives less funding in the 2020-22 biennium as compared to Chapter 56. These payments account for the declines in fall membership and projected Average Daily Membership as well as declines in enrollment or participation data in other Direct Aid programs during the 2020 calendar year due to the COVID-19 pandemic.

Other proposed amendments include: \$80.1 million GF in FY 2022 to provide a 2 percent teacher bonus; \$52.9 million GF the first year to replace a like amount of NGF COVID-19 Relief Funds for the remaining COVID-19 Local Relief payments after accounting for the update to sales tax; \$26.6 million GF in FY 2022 to fund counselors at a ratio of 1:325 in every school; \$11.1 million GF the second year to increase the VPI per pupil allocation; \$10.7 million GF over the biennium to include presumptive English Learner in the ESL program update; \$2.7 million GF to provide the full cost of competing adjustment to Accomack and Northampton counties; and, \$7.2 million GF the second year for Supplemental Education programs.

In addition, there are several proposed amendments in the Department of Education Central Office that total \$2.8 million GF. The proposed amendments include: \$1.9 million GF to repay a Treasury Loan used to reimburse subgrantees for services originally intended to be funded through a federal Substance Abuse and Mental Health Services Administration (SAMHSA) grant; \$365,300 GF for cultural proficiency initiatives; \$300,000 GF for Virginia Kindergarten Readiness Program expansion; and, \$161,174 GF to support the Deputy Superintendent of Early Childhood position.

Higher Education. Under Education, the proposed amendments for Higher Education institutions and related agencies result in restorations of \$111.2 million GF and new spending of \$9.6 million GF. The largest item is \$36.0 million GF for the last-dollar plus workforce initiative known as “G3” at the Virginia Community College System followed by \$30.3 million for undergraduate need-based financial aid. Other proposed restorations include \$8.4 million GF for Norfolk State University; \$7.7 million for Virginia State University; \$7.9 million for the Tuition Assistance Grant (TAG) program; \$5.0 million GF per year for Massey Cancer Center at Virginia Commonwealth University; \$5.0 million GF each for George Mason University and Old Dominion University; and, several other items under \$1.0 million GF each.

In addition, the amendments include the following new spending items: \$4.5 million GF to continue the Connected Campus initiative at Norfolk State University; \$1.5 million per year for a new opportunity at Jefferson Lab; \$1.0 million for Focused Ultrasound Research at the University of Virginia; and, several other smaller items.

Proposed amendments include several language changes, including recommending approval for George Mason University to pursue Level III designation. In addition, under the Virginia Economic Development Partnership, the proposed amendments provide \$500,000 GF for creation of a new Office of Labor Market and Educational Alignment.

Finance. Proposed general fund amendments for the Finance Secretariat result in a net increase of \$400.2 million GF over the biennium. Of the general fund increases, a \$650.0 million deposit to the Revenue Reserve Fund is proposed in the second year, as well as \$100.0 million in the first year for a one-time deposit to the Virginia Retirement System to reduce unfunded liabilities of the public school teacher retirement plan and the state employee retiree health insurance credit program.

General fund reductions include \$49.8 million in debt service savings over the biennium due to the refunding of Virginia Public Building Authority and Virginia College Building Authority bonds.

Health and Human Resources. The introduced budget proposes a net decrease of \$373.5 million GF and an increase of \$1.0 billion NGF for the amended 2020-22 biennial budget. Proposed spending of \$208.1 million GF is offset by \$581.6 million GF in proposed reductions. The largest savings is a technical change to reflect \$233.8 million GF in budget reductions that

were adopted in Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005), as a result of the revenue impact from the Coronavirus pandemic. The other major savings of \$208.9 million GF in HHR is primarily a result of enhanced federal funds from an increase in the federal match rate for Medicaid of 6.2 percentage points. This savings is due to the federal Families First Coronavirus Response Act which provides for enhanced federal Medicaid funds for each quarter of the declared federal health emergency. The increase in nongeneral funds is primarily due to adjustments in the budget to reflect the increase of additional federal funds for Medicaid and higher Medicaid spending, especially hospital payments. These proposed adjustments account for about \$834.4 million or 82 percent of the increase in nongeneral funds over the biennium.

Mandatory general fund spending of \$26.5 million GF (13 percent of new GF spending in HHR, which is atypical since mandatory spending is normally the primary driver) is primarily related to the second year costs of the Medicaid Forecast; increased caseload in the Temporary Assistance to Needy Families Unemployed Parent program; and, funding related to addressing the error rate for the Supplemental Nutrition Assistance Program. The general fund share of Medicaid forecast is partially offset by \$59.1 million in additional revenue and a prior year cash balance in the Health Care Fund.

The proposed budget includes \$177.1 million GF in discretionary spending in HHR. Out of this spending, 67 percent is related to the Commonwealth's response to the Coronavirus pandemic. Of this funding, \$89.3 million is proposed to fund mass vaccination efforts for COVID-19 and \$19.6 million for communication efforts with the public regarding the pandemic. Other major expenditures include \$10.2 million to update the Cooperative Health Budget formula; \$9.2 million for additional funding to support implementation of the federal Family First Prevention Services Act; \$5.3 million to address higher pharmacy costs at state behavioral health facilities; \$3.5 million to create pilot programs for individuals with dementia to divert or discharge them from state facilities; and, \$1.2 million to add doula services to Medicaid.

Natural Resources. The proposed amendments for the Natural Resources agencies result in a net decrease of \$9.7 million GF the first year and \$3.3 million GF the second year. The largest single item is the provision of \$13.6 million GF the second year of a supplemental Water Quality Improvement Fund (WQIF) deposit which includes an additional \$9.0 million GF the second year to the Natural Resources Commitment Fund (NRCF) for the implementation of Agricultural Best Management Practices (Ag BMPs) and \$4.55 million GF for base technical assistance provided by local Soil and Water Conservation Districts (SWCDs). The governor also proposes \$5.0 million GF for the establishment of the Harmony Living Shoreline memorial and \$3.5 million to assist the Chickahominy Tribe with the reclamation of ancestral tribal lands. For the Department of Environmental Quality, a total of \$12.0 million GF is proposed to restore funding for additional positions in its Water Protection, Air Protection, and Land Protection programs.

Public Safety and Homeland Security. The proposed amendments for the Public Safety and Homeland Security agencies result in a net increase of \$17.9 million GF the first year and

\$41.0 million GF the second year, a 1.6 percent increase for the programs within the Secretariat in the second year compared to the base for FY 2021. The largest proposed increase is for the Virginia Department of Emergency Management (VDEM) for ongoing expenses related to pandemic response, totaling \$42.0 million GF the first year and \$36.7 million GF the second year. The majority of these expenditures are intended for the purchase, storage and distribution of personal protective equipment. For the Department of Corrections (DOC), a total of \$14.3 million GF in additional funding is proposed over the biennium to reflect the increased cost of providing medical care to inmates. The amendments recommend \$9.5 million GF the second year for the State Police to increase the annual expenditure for the replacement of patrol vehicles to support a change from using sedans to SUVs, which represents a greater than 100 percent increase above the base funding available. Additionally, a total of \$10.0 million GF the first year and \$20.0 million GF the second year is provided in Central Appropriations for the contingent costs of criminal justice reform legislation, including the costs associated with marijuana legalization.

Veterans and Defense Affairs. The proposed amendments for the Veterans and Defense Affairs agencies result in a net decrease of \$3.4 million GF in spending the second year compared to the base for FY 2021. The decrease is driven by distribution of reductions approved centrally in Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005), to the agency budgets. The proposals also contain an increase of \$727,000 GF the second year for restoration of several items originally included, but later removed from Chapter 1289 of the 2020 Acts of Assembly (HB 30), for the Department of Veterans Services including an assistant manager for the Women Veterans Program, additional veterans peer specialists, and veteran resource specialists.

Transportation. The proposed amendments to the 2020-22 budget for transportation includes one major general fund policy initiative in the second year, the provision of \$50.0 million GF for additional intercity passenger rail service between Washington D.C and Roanoke, with eventual service to the New River Valley. Additionally, \$5.0 million GF is proposed for improvements to multi-use trails greater than 35-miles in length. The budget amendments also reflect a net decrease of \$281.0 million NGF the first year and an increase of \$455.7 million NGF the second year from revisions to the Commonwealth Transportation Fund revenue forecast and allocations in the Six Year Program adopted by the Commonwealth Transportation Board in December, 2020.

Central Appropriations. Proposed amendments in the Central Accounts result in a net general fund increase of \$575.5 million the first year and \$1.0 billion the second year. Significant general fund spending items include \$97.8 million the second year for state and state-supported local employee bonuses, effective September 1, 2021; \$26.8 million over the biennium for the general fund share of agency information technology costs recovered by the Virginia Information Technologies Agency; and, \$9.0 million the second year for the City of Richmond for the planning and development of the Slavery and Freedom Heritage Site and improvements to the slave trail.

Significant general fund adjustments include \$1.5 billion in technical adjustments, which reflects the increase in appropriation resulting from moving approved reductions from Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005) to the agency budgets, net of proposed restorations.

Other changes include proposed adjustments to the state and local allocations of federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funds, relative to Chapter 56. The net adjustments account for the projected allocation of the full \$3.1 billion distributed from the federal government directly to the Commonwealth. Language also provides flexibility for the Governor to shift and reclassify unspent funds remaining after December 30, 2020, if allowed pursuant to federal guidelines, and the subsequent use of remaining funds shall be transferred to the Unemployment Compensation Fund.

Independent Agencies. The proposed amendments to the Independent Agencies include a reduction of \$4.7 million each year from the general fund, and a net nongeneral fund increase of \$55.5 million over the biennium.

The general fund reductions reflect the movement of approved reductions contained in Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005) from Central Appropriations to the Virginia Workers' Compensation Commission's budget. Significant nongeneral fund increases include \$37.0 million over the biennium for the Virginia Lottery to support continued internet lottery sales and the purchase of additional self-service machines, \$15.0 million in the second year for the State Corporation Commission (SCC) to implement the new State Health Benefit Exchange, as well as \$3.5 million over the biennium to replace the SCC's Case Management System.

Capital Outlay. Proposed amendments to the capital outlay program for the 2020-22 biennium total about \$219.2 million (all funds). General fund supported amendments contain \$18.0 million GF cash and \$135.6 million from general fund supported bonds issued by the Virginia Public Building Authority (VPBA) and the Virginia College Building Authority (VCBA). These bonds include \$64.8 million across 14 projects for systems upgrades, facility repairs, and life/safety projects, the largest of which is \$34.0 million at Virginia State University; \$58.5 million in a proposed scope expansion for Central State Hospital; and, \$6.8 million for equipment for projects coming online.

For proposed nongeneral fund capital amendments, about \$55.1 million is funded through 9 (c) and 9 (d) NGF revenue bonds for four higher education projects. Another net \$10.5 million is funded with nongeneral fund cash to support another seven projects at multiple state agencies, including acquisition of a new state forest.