

Overview of Proposed Amendments to the Budget for 1998-2000, as Introduced

The amended budget for 1998-2000, as introduced, is predicated on: (1) a substantial increase in the revenue forecast above the amounts estimated last year; and (2) uncommitted balances that result primarily from the revenue surplus for FY 1998. Together, they provide about \$725.3 million in general fund resources above the totals appropriated last year. In addition, \$79.1 million from the FY 1998 revenue surplus will be deposited into the Rainy Day Fund in FY 2000, and \$44.5 million from the surplus will be paid to the Water Quality Improvement Fund.

In addition to the new revenue, budget savings of about \$77.8 million are proposed in the introduced budget, bringing total new general fund resources available for appropriation to about \$803.1 million.

General Fund Revenues Available for Appropriation (\$ in Millions)		
	<u>As Introduced</u>	<u>Change From Chapter 1 (1998)</u>
Unappropriated and Additions to the Balance	\$ 927.0	\$ 157.5
Official Revenue Estimates	19,450.8	749.1
Transfers	<u>775.7</u>	<u>(37.8)</u>
Total General Fund Revenues Available for Appropriation	\$ 21,153.5	\$ 868.8
Rainy Day / Water Quality and Capital Expenditure Fund	<u>(143.5)</u>	<u>(143.5)</u>
Net General Funds Available for Appropriation	\$ 21,010.0	\$ 725.3

Additions to the Balance. The increased balance of \$157.5 million results primarily from: (1) the FY 1998 revenue surplus of \$156.7 million; (2) \$39.8 million in agency balances that were not re-appropriated; and (3) a \$35.6 million

reduction in balances resulting from a delay in federal approval of the use of TANF funds for the earned income tax credit adopted last session. Because the reduction in TANF balances is offset by an increase in GF revenue, there is no actual impact on revenues available for appropriation.

A total of \$123.6 million of the FY 1998 surplus is designated for the Revenue Stabilization and Water Quality Improvement Funds.

General Fund Revenue Growth. The introduced budget anticipates \$713.5 million in 1998-00 general fund revenues above the amounts projected last year, in addition to a \$35.6 million adjustment for the earned income tax credit.

Additional revenues result primarily from the FY 1998 revenue surplus which increases base revenues going forward; higher than projected growth in wages and salaries; and continued good prospects for growth in revenues from capital gains taxes.

Overall, the new forecast assumes general fund revenue growth of 8.1 percent in FY 1999 and 5.0 percent in FY 2000, compared to the 5.8 and 5.5 percent rates projected last year.

Proposed Tax Policy Changes. Included in the revenue estimates are several assumed tax policy changes. In sum, these proposed changes reduce general fund revenues by \$14.1 million in the second year. Except for the credit for historic rehabilitation, which would take effect on July 1, 1999, each of the proposals take effect beginning January 1, 2000. As a result, only a partial year's costs are contained in this budget. The table below shows the partial year's cost in FY 2000 and the full cost for FY 2001 for each proposed change. An explanation of each proposed change is included in the Revenue section.

Tax Policy Proposals Assumed in the Introduced Budget (\$ Millions)		
	<u>FY 2000</u>	<u>FY 2001</u>
Historic Rehabilitation Credits	(\$0.8)	(\$0.7)
Interest Equalization for Tax Due/Refund Payable	(1.4)	(2.8)
Corp. Income Tax Apportionment Double-Weight Sales Factor	(7.2)	(14.6)
\$15,000 Military Pay Exclusion	_(4.7)	_(9.4)
Total	(\$14.1)	(\$27.5)

Transfers. Several changes to the transfers section combine to produce a net reduction of \$37.8 million.

The principal change is a reduction of expected Lottery proceeds by \$36.0 million in FY 1999 and \$34.7 million in FY 2000. The Lottery reduction assumes that continued low interest rates will keep Lotto and Big Game jackpots small, thereby constraining sales. Most daily and instant lottery games are maturing and experiencing flat-to-lower sales. The revised projection assumes Lottery proceeds will total \$314.4 million in FY 1999 and \$310.3 million in FY 2000.

This reduction is partially offset by an increase of \$11.3 million which is moved from the Water Quality Improvement Fund for appropriation to combined sewer overflow projects; \$3.0 million from additional contract prison revenues, and \$1.3 million from nongeneral fund auto insurance balances. A full summary of the proposed changes to transfers is contained in the Revenue section of this document.

Proposed Spending Increases

The operating appropriations proposed in the introduced budget add about \$764.7 million to the operating budget approved last year. This amount is offset by about \$77.8 million in proposed budget savings, yielding a net funding increase for operations of about \$686.9 million.

These totals do not include an additional \$79.1 million which will be deposited into the Revenue Stabilization Fund in FY 2000, and \$44.5 million which will be deposited into the Water Quality Improvement Fund. These amounts were reserved from the FY 1998 revenue surplus, and are appropriated in the proposed budget as essentially technical amendments.

A summary of significant general fund spending increases in each major area follows.

Direct Aid for Public Education. The largest increase in funding for Direct Aid, \$245.8 million GF, is the result of the distribution of \$314.4 million the first year and \$310.3 million the second year of Lottery proceeds as a specific general fund appropriation for public education, similar to the way the 1 cent of sales tax collected for public education is handled. Both the sales tax and Lottery proceeds are applied against the total SOQ cost, before dividing the remaining cost between the state and localities on the basis of local composite index of ability-to-pay.

The sales tax dollars are allocated to localities on the basis of school age population, while the Lottery dollars are allocated on the basis of a formula which uses average daily membership, the composite index, and variable per pupil amounts.

By running the Lottery proceeds through a distribution mechanism that is a shared state/local funding formula, localities will receive an additional \$123.4 million in FY 1999 and \$122.3 million in FY 2000. They will be allowed to count this additional funding toward their required local effort for public education, thereby resulting in an equivalent local savings each year.

Additional increases totaling \$13.8 million GF have been recommended to initiate a grant program to provide 400 new teachers, based on criteria to be developed by the Board of Education relative to performance on the Standards of Learning tests; and provide second year funding for the early reading intervention program for first grade students with reading deficiencies.

An additional \$2.7 million GF is recommended for the Department of Education to create 8 regional Best Practice Centers, to contract for an evaluation of the SOL Teacher Training program, and to study non-traditional teaching opportunities in public schools.

Higher and Other Education. General fund increases are recommended in four cross-cutting areas -- \$74.7 million for a 20 percent reduction in resident, undergraduate tuition and instructional fees; \$6.5 million to offset a shortfall in tuition and fee revenues; \$5.6 million for Year 2000 compliance; and a net increase of \$0.5 million for enrollment changes at three institutions.

Additional funding of \$1.6 million is recommended for Tuition Assistance Grants to reflect additional Virginia students anticipated at the Commonwealth's private colleges and universities.

Key institution-specific initiatives include \$10.5 million GF at George Mason University for instructional technology and to improve academic programs; \$2.0 million GF at Old Dominion University to increase the number of students in technology-training programs; \$1.8 million GF at Norfolk State University for upgrades to the telecommunications network and for academic program improvements; and \$1.4 million GF at Virginia State University for academic program improvements and cooperative extension programs. Funding of \$2.5 million GF is also proposed to support the new library at the Medical College of Hampton Roads.

Health and Human Resources. Two-thirds of the general fund increase in Health and Human Resources, \$41.4 million, is recommended to serve mentally disabled persons: \$18.4 million to improve care in state institutions; \$9.9 million for additional community-based services for mentally retarded persons; \$7.4

million for medications for mentally ill persons; and \$4.6 million for community initiatives that would reduce hospitalization in state facilities.

Most of the remaining general fund increase is recommended for revised Medicaid reimbursement for hospitals (\$15.4 million) and additional data processing costs in the Department of Social Services (\$3.1 million).

Public Safety. The largest portion of increased spending in Public Safety, \$98.9 million GF, is proposed to fully fund the HB 599 formula for aid to localities with police departments.

Additional funding of \$13.5 million GF is proposed to increase salaries for Correctional Officers in the Departments of Corrections and Juvenile Justice, while a proposed salary increase for correctional education teachers accounts for another \$2.3 million GF.

The projected fiscal impact of two proposed bills (Project Exile and bail reform) is accounted for in part by a recommended \$8.0 million GF deposit into the Corrections Special Reserve Fund. An increase of \$2.0 million GF is also recommended for development of a new radio communications system for State Police.

Compensation. Amendments totaling \$89.4 million GF have been proposed for employee salaries and benefits.

The largest change is the recommendation of \$47.5 million GF the second year to support salary increases for classified state employees and state supported local employees. This includes: (1) \$25.0 million GF for a one-step (2.25%) salary increase on June 25, 1999, for classified state employees with 3 years or more of service who are meeting performance expectations; and (2) \$21.4 million GF for a 4.0 percent salary increase on November 25, 1999 for state employees who are meeting performance expectations and state-supported local employees.

Also proposed is \$5.7 million GF to support second year employer health insurance rate increases which average 4.0 percent.

The Governor's proposed amendments include \$36.2 million GF in the budgets of affected agencies to support 7 job class regrades. These include:

- 1) \$20.1 million GF for a one pay grade (9.3%) salary increase for Deputy Sheriffs;
- 2) \$1.6 million GF to implement a career progression plan for Juvenile Correctional Officers;

- 3) \$12.0 million GF to implement a career progression plan for Adult Correctional Officers;
- 4) \$2.3 million GF to provide Correctional Education Teachers with an average 10% increase for parity with public school teachers;
- 5) \$0.4 million NGF for a one pay grade (9.3%) salary increase for Game Wardens;
- 6) \$0.1 million GF for a one pay grade (9.3%) salary increase for Marine Patrol Officers, and
- 7) \$0.2 million GF for a one pay grade (9.3%) salary increase for Food Safety Inspectors.

Amendments totaling \$13.9 million GF transfer previously approved appropriations for job class specific salary increases to the affected agencies.

Commerce and Trade. Nearly all of the new general fund spending occurs in three agencies — the Virginia Tourism Authority, the Department of Housing and Community Development, and the Department of Business Assistance.

Included in the amendments is a proposal to create a Virginia Tourism Authority, by transferring \$16.6 million from tourism promotion activities in the Virginia Economic Development Partnership to the new entity. Proposed new funding for the Authority includes an increase of \$2.0 million GF in the Cooperative Tourism Fund, and \$1.0 million GF for a regional tourism center in Williamsburg.

Increases in the Department of Housing and Community Development include \$3.9 million GF the second year to level fund the Regional Competitiveness Fund, and \$3.0 million GF in the second year to continue assisting communities with the cost of developing industrial sites. In the Department of Business Assistance, the Governor recommends an additional \$2.0 million GF the first year to fund commitments for worker training programs.

Funding of \$15.5 million GF is contained within the Central Appropriation's Economic Contingency Fund, including \$9.8 million to support the Shipbuilding Investment Grant Program; \$6.0 million in the Opportunity Fund to assist two major economic development projects; and \$500,000 for the creation of a Motion Picture Opportunity Fund.

Natural Resources. The Governor's recommended amendments increase the general fund appropriation for Natural Resources agencies by \$55.3 million GF for the biennium. Of the \$55.3 million, \$49.0 million, or 89 percent, is directly related to initiatives to improve water quality.

Most of the funding is required by provisions of the Virginia Water Quality Improvement Act (WQIA) of 1997. Proposed funds for water quality -- \$45.2 million (\$44.5 million plus interest earnings) -- are tied to efforts to reduce both point and nonpoint pollution, primarily by reducing the overabundance of nutrients in state waters. Other amendments to improve water quality include additional support for regulating confined animal feeding operations, oyster propagation, water quality monitoring, and funding for a tributyltin (TBT) treatment program in Hampton Roads.

General Government. Initiatives in General Government include additional funding of \$27.3 million GF to assist selected agencies with Year 2000 problems.

Other significant increases include: \$4.6 million GF for the Criminal Fund to reflect increased caseload and costs; \$2.9 million GF for changes in local jail per diems, contract beds, and two new jails coming on line, plus \$2.2 million GF to offset the local cost of proposed legislation involving bail reform and the illegal possession of a firearm.

The Governor's budget proposes to establish an Office of Technology, transferring several agencies and programs to the Secretariat from other areas, including the Department of Information Technology, the Council on Information Management, the Innovative Technology Authority, the Century Date Change Project Office, and the Virginia Information Providers Network Authority.

Capital Budget Recommendations. The amended budget proposes \$33.6 million in additional general fund support for capital outlay.

Another \$19.9 million GF is included in the introduced budget through the substitution of general funds for special funds, with no change in projects funded, as the result of the veto of SB 476, which called for a portion of non-withholding revenues to be deposited into a special fund and used for non-recurring expenses.

Recommended amendments for the capital outlay budget generally fall into three areas -- infrastructure repairs of an emergency nature required to maintain or extend the life of a facility; supplements to existing projects; and new projects funded with private gifts, grants, or auxiliary enterprise funds.

Out of the additional general funds, \$6.5 million is recommended to increase maintenance reserve funding for institutions of higher education. Funding of \$5.7 million GF is proposed for replacement of heating and cooling systems at the College of William and Mary, and \$1.9 million GF is included to replace inadequate heating and cooling systems at George Mason University.

Funding of \$6.8 million is provided for nongeneral fund projects, and \$11.2 million for two projects funded with non-tax-supported debt.

The following table details the significant general fund spending increases in the budget, as introduced.

Major Spending Increases Included in the Budget, As Introduced** (GF \$ in millions)	
Direct Aid to Public Education	
Lottery Profits through SOQ Basic Aid Formula	\$ 245.8
Teacher Grant Program (400 new teachers)	8.0
Second Year Funding for Early Reading Intervention	5.3
Best Practices Centers	2.5
Teachers for New Detention Home	0.5
Higher Education/Other Education	
20% Tuition Reduction for Va. Undergraduates	74.7
GF to Offset Uncollectible NGF Revenue	6.5
Technology Upgrades (GMU, NSU, LC, VIMS)	8.2
Enhance Academic Programs (GMU, VSU, NSU)	3.6
Operating Funds-New Campuses (JSRCC/LFCC)	1.7
Revised Enrollment Growth Proj. (JMU, VMI)	1.2
TAG Grants – Revised Enrollment Projection	1.6
MCHR-Medical Library & Health Info. Infrastructure	2.5
State Library-Operation of New Records Center	0.8
State Museums-Staffing & Offset Revenue Loss	0.4
Public Safety	
DCJS-Full Funding of Aid to Localities with Police Departments (HB 599)	98.9
DOC / DJJ-Bail Reform, Va. Exile & Felony Penalty Bills	8.1
VSP-Shared Radio System / Digital Data Lines	3.8
DOC-Prison Cost Increases & Staff New Prisons	2.5
DCJS-School Resource Officer Program	1.0
DOC-Renovate Norfolk Jail	0.4
DJJ-Additional Probation & Parole Positions	0.6

Health and Human Resources

MHMR-CRIPA Improvements at ESH, CSH, WSH	\$ 16.4
MHMR-Community Svcs. for Mentally Retarded	9.9
MHMR-Medications for Mentally Ill	7.4
MHMR-Comm. Initiatives to Reduce Use of State Hospitals	4.6
MHMR-Other Facility Improvements	1.9
MHMR-Management and Care Oversight	0.6
DMAS-Inpatient Hospital DRG System	15.4
DSS-Added Data Processing Costs	3.1
Health-Home Health Care Audit Penalties	1.0

Employee Compensation

Classified Employee Salary Increase-FY 2000	47.5
Health Insurance Premium Increase	5.7
DOC / DJJ-Adult & Juvenile Corr. Off. Salary Increase	13.6
DCE- Salary Increase for DCE Teachers	2.2
Comp. Bd.-Salary Increase for Sheriffs' Deputies	20.1

Commerce and Trade

Regional Competitiveness Act	3.9
Shipbuilding Center Incentive (Central Acct.)	9.8
Econ. Development Project (Central Acct.)	3.0
Norfolk Econ. Development Project (Central Acct.)	3.0
Industrial Site Development Fund	3.0
Cooperative Tourism / Regional Tourism Center	3.0
Workforce Services	2.0
Assistance for Disadvantaged Small Businesses	1.1
Va. Business Information Center	0.5

Finance

Taxation-Op. Costs / Legislation / Impact Model	2.6
Treasury-Check Printing & Distribution Equip.	0.5
Additional Staffing (DPB / Internal Auditor / Accounts)	0.9

Natural Resources

Lynchburg & Richmond CSO	11.3
DEQ-Increased Staffing / Info Systems Support	3.2

DEQ-TBT Treatment Program	\$ 1.5
DEQ/C&R-Monitoring & Permitting Activities	3.1
C&R-Open Space Easements	0.5
C&R-Beach Replenishment	0.3
General Government	
Comp. Bd.-Local Jail Per Diems/State Inmates	7.6
Comp. Bd.-Bail Reform & Va. Exile Legislation	2.2
DGS-Experience-Based Worker's Comp.	1.2
Bd. Elections-Computer Equipment-Registrars	0.5
Judicial	
Criminal Indigent Defense	4.6
Increased Public Defender Positions	0.9
Statewide Elected	
AG-Operating Funds/Compensation Plan/Replace Federal Funds	1.8
Non-State Agencies	
Additional Project Funding	1.5
Roanoke Higher Education Center	3.6
Other	
Year 2000 Compliance (\$5.6 for Higher Ed)	34.8
Secretary of Technology	0.6
Va. Geographic Information Network Div.	0.5
Other	<u>23.6</u>
Total-Operating Recommendations	\$ 764.7
**This table does not include the \$79.1 million which will be deposited in the Rainy Day fund in FY 2000, or the \$45.2 million to be deposited in the Water Quality Improvement Fund. These amounts were reserved from the FY 1998 revenue surplus and are appropriated in the introduced budget through essentially technical amendments.	

**Capital Outlay Appropriations
in the Budget, As Introduced
(GF \$ in millions)**

CA - Maintenance Reserve at Colleges and Universities	\$ 6.5
DGS – Renovate Finance Building Supplement	1.0
VSDB – Replace Steam Lines, Staunton	1.3
VCCS – No. Va. Medical Campus Supplement	1.9
UVA – East Precinct Chiller Supplement	3.0
VPI&SU – Improve Chillers	1.2
VPI&SU – Supplement to Advance Communications Center	2.0
Va. Coop. Ext. – Replace Hampton Roads Center	1.3
GMU – Improve Heating and Cooling System	1.9
CWM – Replace Heating and Cooling Systems	5.7
JMU – Improve Campus Steam System	0.9
LC – Plan New Science Building	0.9
VSU – Reduce Maintenance Reserve Backlog	0.7
VSU – Renovate Virginia Hall Auditorium	1.4
VSU – Temporary Library Facilities	0.8
VSU – Construct Life Sciences Annex	0.8
JYF – Education Center Equipment	0.5
DMA – Powhatan Armory State Match	0.9
Other Capital Projects	<u>0.8</u>
Total-Capital Outlay	\$33.6

Spending Reductions

The introduced budget includes reductions totaling about \$77.8 million. Of these reductions, the largest amount results from reduced enrollment and sales tax projections for public schools, reduced debt service requirements based on lower than projected interest rates and project delays, and a reduction in the first year forecast for Medicaid.

The table on the next page details the savings proposed in the budget, as introduced.

**Major Spending Reductions
in the Budget, As Introduced
(GF \$ in millions)**

Public Education

DAPE-Lower School Enrollments-SOQ, K-3, Other Programs	(\$ 25.6)
DAPE-Reduced Sales Tax Estimates	(11.2)

General Government

Treas. Bd.-Reduced debt service appropriation	(15.8)
Comp.Bd.-Delayed Openings for New Jails	(1.8)
Comp.Bd.-Reduce Jail Contract Bed Program	(3.0)
Cen. Accts.-Adjust Appropriation for the Solar Photovoltaic Incentive Grant Program	(1.5)
Cen. Accts.-Premium Holiday for Automobile Insurance Program	(1.2)
DGS-Revise Funding for General Liability Insurance	(0.9)

Health and Human Resources

DMAS-Reduced 1st Year Forecast	(7.8)
DSS-Change and Delays in Privatization Plan for Child Support Enforcement and Automation	(1.4)

Public Safety

DJJ-Decrease State Funding for Construction of Local Detention Facilities	(3.1)
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Other Savings

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Total

(\$ 77.8)