

Overview of the Governor's Recommendations for the 2014-16 Budget

The proposed budget for 2014-16 provides a net increase of \$1,737.0 million GF in the operating budget above the current base budget. Approximately \$1,790.8 million in additional resources over the base are available for appropriation, including the carry forward of \$536.5 million from FY 2014 along with upward adjustments to the revenues from projected growth of 4.2 percent the first year and 3.9 percent in the second year of the biennium.

Proposed spending increases of \$2,676.6 million are offset by \$250.7 million in budget reductions from targeted or agency-specific savings. Technical and base adjustment reductions total \$688.9 million. The introduced budget assumes an unappropriated balance of \$50.9 million.

Proposed General Fund Budget for 2014-16 (\$ in millions)			
	<u>FY 2015</u>	<u>FY 2016</u>	<u>2014-16</u>
Resources Available for Appropriation	\$18,854.7	\$18,908.3	\$37,763.0
Ch. 806 Base Budget	\$17,986.1	\$17,986.1	\$35,972.2
Net Budget Actions	<u>822.3</u>	<u>914.7</u>	<u>1,737.0</u>
Operating Appropriations*	\$18,808.4	\$18,900.8	\$37,709.2
Unappropriated Balance	\$43.4	\$7.5	\$50.9
<i>*Excludes \$2.9 million GF over the biennium for capital outlay</i>			

Revenues

The proposed 2014-16 budget includes \$37.8 billion in general fund resources available for appropriation. The budget, as introduced, includes \$536.5 million as a projected unspent balance at the end of the 2012-14 biennium, resulting primarily from the FY 2013 revenue surplus of \$264.3 million and net spending reductions of \$249.1 million proposed in HB/SB 29. The balance contains \$243.2 million for the FY 2015 Constitutionally required deposit to the Revenue Stabilization Fund. A balance adjustment of \$95.0 million carries forward the amount established as the advance reserve to be used to offset the FY 2016 required deposit, currently estimated at \$59.9 million, based on expected FY 2014 revenue growth.

The 2014-16 general fund revenue forecast assumes growth rates of 4.2 percent in FY 2015 and 3.9 percent in FY 2016, after taking into account a reduction of \$15.4 million from proposed tax policy changes and technical adjustments, resulting in projected collections of \$36,059.5 million. The forecast assumes that growth will remain sluggish and Virginia will underperform the nation as the impact of federal budget actions dampens the Virginia economy due to the large military presence and heavy reliance on federal procurement spending.

General Fund Resources Available for Appropriation (2014-16 biennium, \$ in millions)	
Beginning Balance	\$536.5
Adjustments to the Balance	94.0
Official GF Revenue Estimate	36,059.5
Transfers	<u>1,072.9</u>
GF Resources Available for Appropriation	\$37,763.0

Proposed Spending Increases

Major spending initiatives proposed in the 2014-16 biennial budget include:

- \$674.4 million GF to address the increased cost of Medicaid utilization and inflation;
- \$584.1 million GF for the cost of updating the state's share of rebenchmarking the Standards of Quality for public schools. Included in this updated estimated total is \$168.7 million which reflects changes in the retirement contribution rates and other employee benefits for the biennium.
- \$303.0 million for two Constitutionally required deposits to the Revenue Stabilization Fund;
- \$196.7 million GF to provide debt service for capital projects and equipment;
- \$184.5 million GF in support of higher education;
- \$151.2 million GF for increases in the cost of state employee retirement, and the repayment of deferred state employee retirement contributions; and
- \$83.9 million GF for state employee health insurance premium increases.

Proposed Budget Savings

Major proposed savings include:

- \$76.4 million from removing non-personal inflation adjustments from the cost of rebenchmarking public education Standards of Quality (SOQ).
- \$48.5 million from the Virginia Preschool Initiative program based on historic nonparticipation rates of 25.43 percent;
- \$44.6 million from Medicaid by withholding the inflation adjustment for hospitals in FY 2015; and
- \$20.7 million from removing the remaining Cost of Competing Adjustment (COCA) of 6.98 percent for support salaries in school divisions within the Northern Virginia labor market.

A summary of significant general fund spending increases and savings actions proposed in each major area follows:

Major Spending and Savings Proposed in HB/SB 30, as Introduced

(GF \$ in millions)

FY 2014-16

Major Spending Proposed

Medicaid Utilization and Inflation	\$674.4
Rebenchmarking Costs for K-12 Standards of Quality	584.1
Appropriate Deposits to Revenue Stabilization Fund	303.1
Debt Service for Currently Authorized Projects and Equipment	196.7
Higher Education Funding (TJ 21, Financial Aid, Other)	184.5
Fund Updated Costs for State Employee Retirement Rates	97.6
Fund State Employee Health Insurance Program	83.9
Fund Payback of Deferred Retirement Contributions	53.6
Fund K-12 Retirement to Supplant Literary Fund Payments	52.9
DMAS: Funding for Mandatory Waiver Slots	45.3
All Other Spending	<u>400.5</u>
Total Spending:	\$2,676.6

Major Savings Proposed

Eliminate K-12 Non-personal Inflation Update	\$(76.4)
Reduce PreK for Nonparticipation	(48.5)
DMAS: Withhold Hospital Inflation in FY 2015	(35.3)
Eliminate K-12 COCA for Support Positions	(20.7)
DMAS: Teaching Hospital Indigent Care Savings	(15.0)
Repurpose Culpeper Juvenile Correctional Center	(14.9)
DMAS: Withhold Teaching Hospital Inflation in FY 2015	(9.4)
DJJ Turnover and Vacancy Savings	(8.9)
Match Medicaid Durable Medical Equipment Rates	(4.8)
DSS Auxiliary Grant Program Savings	(4.0)
All Other Savings	<u>(12.8)</u>
Total Savings:	\$(250.7)

Technical and Base Adjustments	\$(688.9)
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Net Spending Adjustments	\$1,737.0
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Judicial Department. The proposed FY 2014-16 budget for the Judicial Department includes \$3.9 million GF each year to eliminate a required judicial reversion related to vacant judgeships. This action will enable the General Assembly to fill 25 vacant judgeships as of July 1, 2014. Language authorizes the filling of 13 Circuit, eight General District, and four Juvenile and Domestic Relations District judges, for a total of 25. The proposed budget also includes \$2.7 million GF each year for increased costs in the Criminal Fund.

Executive Offices. The proposed FY 2014-16 budget for Executive Offices includes \$2.5 million NGF each year from the Abbott Laboratories Settlement Fund to support law enforcement and prosecution units, as agreed to by the Attorney General and federal prosecutors.

Administration. The proposed budget for Administration results in a net increase of \$80.3 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 in each year, reflecting a significant policy change toward traditionally “sum sufficient” agencies. Of this amount, approximately \$1.0 billion in each year is to accurately account for annual expenditures on employee health insurance

Proposed additional spending includes \$12.4 million GF for the biennium for staffing to open new and expanded jails, \$3.0 million GF for new law enforcement deputy positions to meet the 1:1500 standard; and, \$9.4 million GF for a 2 percent entry-level salary increase for deputy sheriffs. Also included is \$4.2 million GF for the second phase of a salary increase for Assistant Commonwealth’s Attorneys, and \$0.8 million GF for 4 and 2 percent salary increases for Level I and II deputy clerks in the Circuit Courts.

Agriculture and Forestry. The proposed 2014-16 general fund budget for the Agriculture and Forestry Secretariat includes \$1.5 million GF for the Reforestation of Timberlands program, \$0.9 million GF to meet computer security standards at the Department of Agriculture and Community Services and an increase of \$500,000 GF for the Governor’s Agriculture and Forestry Industries Development Fund to provide local grants to expand agricultural processing and manufacturing facilities. Other actions include an additional \$500,000 GF each year for debt service payments to allow the Department of Forestry to lease-purchase \$4.4 million in new firefighting equipment, and a proposal to increase funding for the Weights and Measures program by \$250,000 GF each year.

Commerce and Trade. The proposed FY 2014-16 general fund budget includes a net increase of \$19.4 million GF for economic development incentives. The majority of this additional funding is based on adjustments to performance-based grant funding from previously committed obligations. Programs with significant increases include Aerospace Engine Facility Incentive Payments, the Advanced Shipbuilding Training Facility Grant, and the Major Eligible Employer Grant fund. The introduced budget recognizes the merger of the

former Departments of Business Assistance and Minority Business Enterprise into the new Department of Small Business and Supplier Diversity, which results in a small net savings. The budget also recommends the creation of the Fort Monroe Authority as a stand-alone agency, and provides \$12.2 million GF for operations of the authority and \$22.5 million in bond funds for maintenance needs of the former U. S. Army installation.

Public Education. The proposed FY 2014-16 general fund budget for Direct Aid to Public Education totals \$11.2 billion, a net increase of \$500.3 million when compared to the Chapter 806 base budget. The general fund base budget includes \$111.3 million in one-time spending which is removed in the proposed decreases. The budget reflects biennial re-benchmarking of Direct Aid for updated cost and salary data as of FY 2012; updated Composite Index of Local Ability-to-Pay calculations (Tax Year 2011); and a projected additional 17,918 students for a total 1,246,428 students by FY 2016, which represents an enrollment increase of 1.5 percent over two years.

The budget includes an increase of \$168.7 million GF for the state's share of employer Virginia Retirement System rates of 14.50 percent as well as Group Life and Retiree Health Care Credit employer rates of 0.53 percent and 1.18 percent, respectively.

In addition, \$20.0 million GF is budgeted to backfill Literary Fund revenues used for teacher retirement costs, and the freed-up revenue will be programmed for school construction loans. In addition, another \$32.9 million GF will backfill the Literary Fund for teacher retirement costs due to the decline in loan repayments and the additional amounts needed for school security grants. The budget also reflects projected increases in Sales Tax revenue and Lottery Proceeds for a revised grand total of \$2.6 billion and \$1.0 billion, respectively, over the biennium.

The proposed budget reflects several policy changes including the continuation of not funding non-personal inflation costs which would bring the FY 2012 cost data up to the beginning of the 2014-16 biennium, for a state savings of \$76.4 million GF; and savings of \$20.7 million GF by eliminating the remaining cost of competing adjustment for support positions costs applied to Planning District 8 and certain adjacent divisions (no change is proposed for the cost of competing adjustment for instructional costs).

Proposed new initiatives in K-12 total a net \$6.2 million over the biennium, including \$3.6 million GF for Math and Reading Specialists in schools not accredited, and \$1.0 million for Teach For America. Other net increases include \$1.2 million GF for awards for teachers with national board certification; \$538,000 GF to Communities in Schools; \$513,920 for Positive Behavioral Interventions; and \$375,000 for the GReat Aspirations Scholarship Program. Finally, proposed action transfers the Opportunity Educational Institution to a new separate agency code and adds \$900,000 GF and 7.0 positions over the biennium.

Higher Education. The introduced budget for higher education proposes over \$184.5 million GF of new funding for the biennium for Virginia's public colleges and universities and other higher education entities and centers. The majority of new funding, about \$75.0 million per year, is recommended to support the goals of the Virginia Higher Education Opportunity Act of 2011 with the intent of fueling economic growth in the Commonwealth and preparing Virginians for top job opportunities. The new funding is allocated in six areas: base operations (\$6.8 million each year), enrollment growth (\$10.5 million each year), degree production incentives (\$31.5 million each year), performance-based institution-specific initiatives/research (around \$10.5 million each year), and undergraduate and graduate financial aid (\$15.8 million each year).

In addition to the new funding, the Governor increases the mandatory internal reallocation policy for colleges and universities by 2 percent, based on the 2014 Educational and General (E&G) appropriation for each institution. This results in reallocations of \$25.2 million in each year, roughly 1/3 of the new funding for the public colleges and universities.

Finance. The proposed biennial budget includes \$243.2 million GF in FY 2015 and \$59.9 million GF in FY 2016 for the statutorily required deposits to the Revenue Stabilization Fund. The \$243.2 million FY 2015 deposit includes \$95.0 million which was held in reserve for FY 2014 in anticipation of the 2014-16 biennium deposits. The budget also includes an additional \$75.6 million GF in FY 2015 and \$121.1 million GF in FY 2016 for increased debt service payments. Finally, a significant policy action regarding "sum sufficient" appropriations is included in the Department of Accounts resulting in net increases of \$24.1 million and \$24.5 million NGF for the Cardinal, Performance Budgeting, and Payroll Services chargeback items.

Health and Human Resources. The introduced budget proposes a net increase of \$823.8 million GF and \$678.1.0 million NGF for the 2014-16 biennial budget. Proposed spending of \$1.1 billion GF is offset by \$253.2 million GF in proposed budget reductions. Similar to biennial budgets for HHR in previous years, 71 percent of proposed general fund increases are driven by mandatory health and long-term care spending on Medicaid. Unlike prior years, technical budget proposals account for 20 percent of "new" general fund spending in HHR. The unusually high dollar amount proposed for technical budget issues is primarily related to establishing the general fund base for the Department of Justice Settlement Agreement, which had been funded with one-time appropriations in FY 2013 carried forward to FY 2014, therefore no base funding existed in FY 2015. Further, agency budgets include proposed increases to account for the distribution of costs from last year's budget actions, such as state employee salary increases as well as other administrative costs.

Mandatory general fund spending of \$760.5 million (71 percent of new GF spending in HHR) is primarily related to mandatory spending for acute and long-term care services provided through Medicaid. In total, proposed spending on Medicaid requires the addition of \$674.4 million GF for the biennium to pay for health care services for low-income Virginians as

well as long-term care costs for the elderly and disabled. Overall growth rates in Medicaid are expected to continue to fall during the biennium from the double-digit levels experienced during the height of the Great Recession.

New spending in HHR is offset by proposed general fund budget reductions of \$253.2 million. One-third of the reductions are related to savings generated by closing units at the state's Intellectual Disability Training Centers as a result of discharging individuals pursuant to the U.S. Department of Justice Settlement Agreement. An additional \$59.6 million in proposed spending reductions result from withholding inflation adjustments to Virginia's hospitals, including UVA and VCU, as well as indigent care subsidies to the teaching hospitals through FY 2015. An additional \$55.7 million in proposed general fund savings is generated through a provision in the Patient Protection and Affordable Care Act that allows Virginia to receive enhanced federal matching funds (88 percent) for health care services provided to children in FY 2016.

Natural Resources. The proposed FY 2014-16 budget for Natural Resources includes the appropriation of the statutorily required deposit to the Water Quality Improvement Fund of \$31.5 million in FY 2015. The deposit is a result of the FY 2013 revenue surplus and budget balances. Of this deposit, \$23.9 million, or 75 percent, is proposed for agricultural best management practices through the Department of Conservation and Recreation (DCR), and the remaining \$7.6 million, or 25 percent, is proposed for stormwater management and other nonpoint pollution control projects managed by the Department of Environmental Quality. Other general fund increases include \$2.0 million for the Virginia Land Conservation Fund, and increased transfers from the general fund to the Game Protection Fund of \$4.8 million from sales tax on hunting and fishing equipment and \$4.4 million from watercraft sales taxes.

Public Safety. The proposed FY 2014-16 budget for Public Safety includes the closure of Culpeper Juvenile Correctional Center as a juvenile facility and the repurposing of the facility as a women's prison. The proposed cost to operate the facility as a women's prison is \$25.1 million GF for the biennium, offset by a net savings of \$14.9 million GF. The savings will be achieved by closing Culpeper as a juvenile facility; closing two underutilized halfway houses; and restructuring juvenile services to include 40 placements in local and regional juvenile detention centers, placement in an independent living program, and by continuing mental health services for juveniles released from state facilities.

Funding of \$8.8 million GF for increased inmate medical costs in the Department of Corrections is also proposed. Finally, the proposed budget adds \$7.1 million GF the first year and \$14.3 million GF the second year for increased state aid to localities with police departments (HB 599 of 1979), consistent with the increase in projected general fund revenues.

Veterans Affairs and Homeland Security. This secretariat includes the Department of Veterans Services (DVS) and what was formerly the Office of Commonwealth Preparedness in

the Office of the Governor. The budget, as introduced, includes \$3.1 million the first year as the nongeneral fund portion of the \$7.5 million state contribution to address encroachment at Oceana in FY 2015. The nongeneral fund portion is supported from the state share of the revenue from the sale of property that was purchased using funding that was previously provided to address encroachment. The general fund share (\$4.4 million) is included in the Federal Action Contingency Account (FACT) Fund.

Technology. The proposed budget for Technology includes an additional \$2.0 million in funding for the Center for Innovative Technology's mapping and application development programs, \$1.0 million in additional funding for the GAP Fund, and \$1.5 million GF for cyber-security and modeling and simulation. Other actions include about \$400,000 GF the first year, \$5.0 million GF the second year, and nongeneral funds to assist 109 state agencies with VITA information technology charges. Other nongeneral fund initiatives include funding to deal with the expiration of VITA's contract with Northrup Grumman, funding associated with the web-hosting services VITA is providing other state agencies, and additional funding to implement a new telecommunications management and billing system.

The most significant proposed policy action in Technology is the elimination of sum sufficient appropriations for VITA's internal service fund. Instead, line item budgets have been provided for the payment of vendors, optional services to state agencies, and VITA's administrative overhead costs. This action increases nongeneral fund spending in the Technology secretariat by \$341.8 million. In addition, \$3.4 million NGF the first year and \$18.2 million NGF the second year is added to these internal service fund line item appropriations to reflect growth in the level of information technology services provided to state agencies.

Transportation. The proposed 2014-16 budget for transportation includes a number of policy adjustments, the most significant of which is establishing the Virginia Commercial Spaceflight Authority as an agency within the Appropriations Act. Additionally, \$6.5 million in GF funding is provided to the Virginia Port Authority for the dredging of the Norfolk Harbor and Elizabeth River Channels, language authorizes the Craney Island Connector capital project, and equipment and facility improvements to both the APM-Portsmouth and NIT container yard facilities. \$3.5 million GF is provided for the Port of Virginia Economic Development Zone Grant program.

Central Appropriations/Compensation. Significant expenditure proposals include targeted funding of \$20.1 million GF for the biennium to provide a 2 percent salary increase to 19 classes of employees that have the highest rates of turnover. The budget also proposes language authorizing a contingent employee bonus of 2 percent, as well as a performance bonus of 1 percent, in the second year. Funding of \$24.6 million GF in FY 2015 and \$59.3 million GF in FY 2016 is included for the full employer share of health insurance premium increases for the biennium. The proposed 2014-16 budget includes approximately \$150.0 million to fund recommended rates for VRS and OPEB contributions, plus \$168.7 million GF provided for

teacher retirement contributions, group life, and the retiree health care credit in Direct Aid for Education.

General fund decreases in Central Appropriations for FY 2015 and FY 2016 include: a reduction of \$3.4 million and \$3.7 million respectively in agency savings strategies from 23 line agencies.

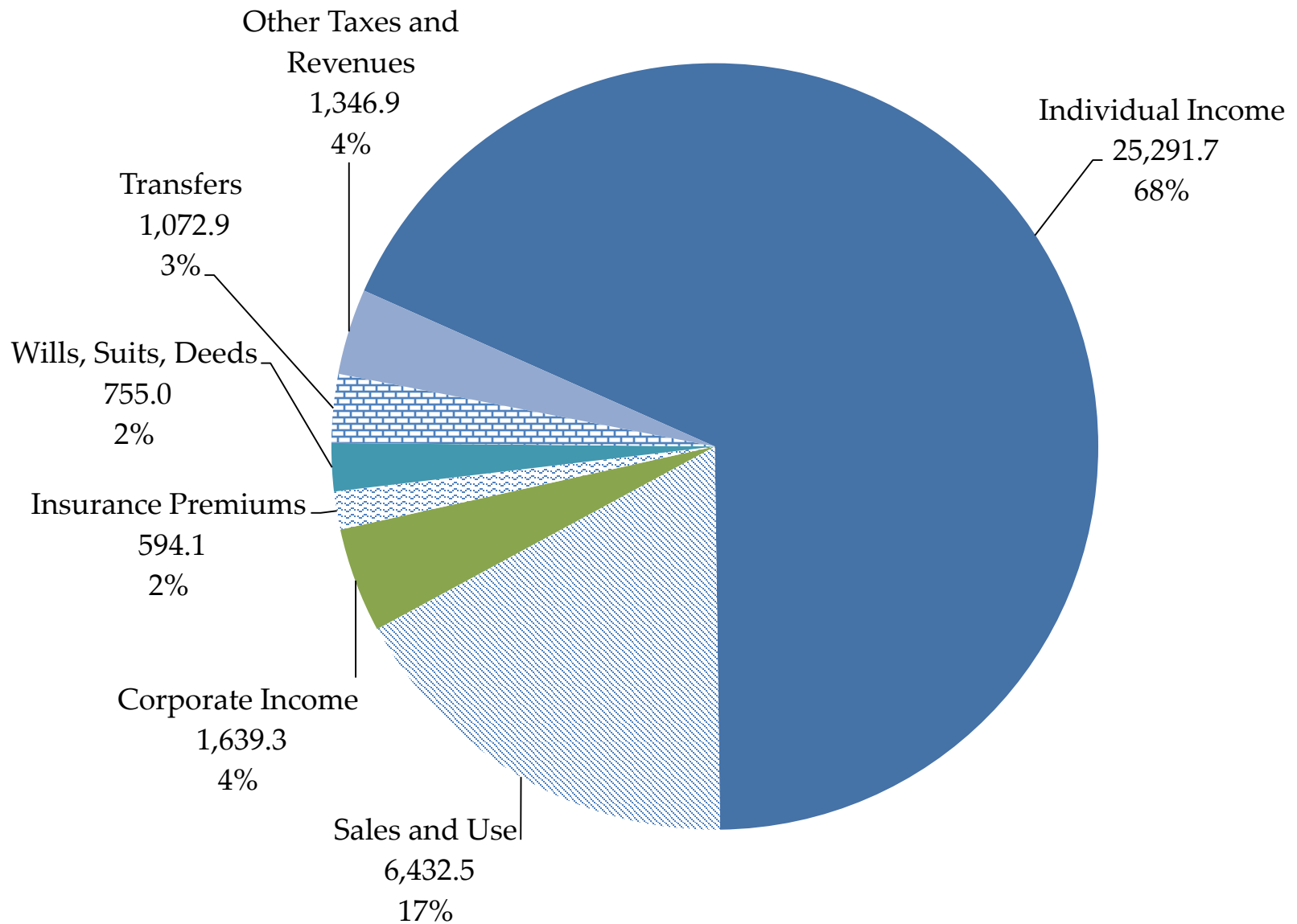
Capital Outlay. Proposed capital outlay for the 2014-16 biennium totals \$935.4 million from all fund sources. Of this amount, \$2.9 million is general fund cash, and \$249.0 million is Virginia Public Building Authority or Virginia College Building Authority tax-supported bonds. The introduced budget also includes \$154.8 million in 9(C) revenue bonds and \$252.2 million in 9(D) revenue bonds. The balance of \$303.5 million is nongeneral fund cash from a variety of agency fund sources.

The tax-supported bonds include level-funding of \$61.5 million each year for Central Maintenance Reserve. However, the budget proposes a substantial change in the allocation of these funds. Rather than budgeting for specific projects in the agencies and institutions, the allocation is proposed based on the ratio of square footage of buildings maintained by the agency or institution. The tax-supported bonds also include \$21.1 million in equipment supplements for capital projects expected to be completed in FY 2015.

FY 2014-16 General Fund Revenues = \$37.1 billion

HB/SB30, as Introduced

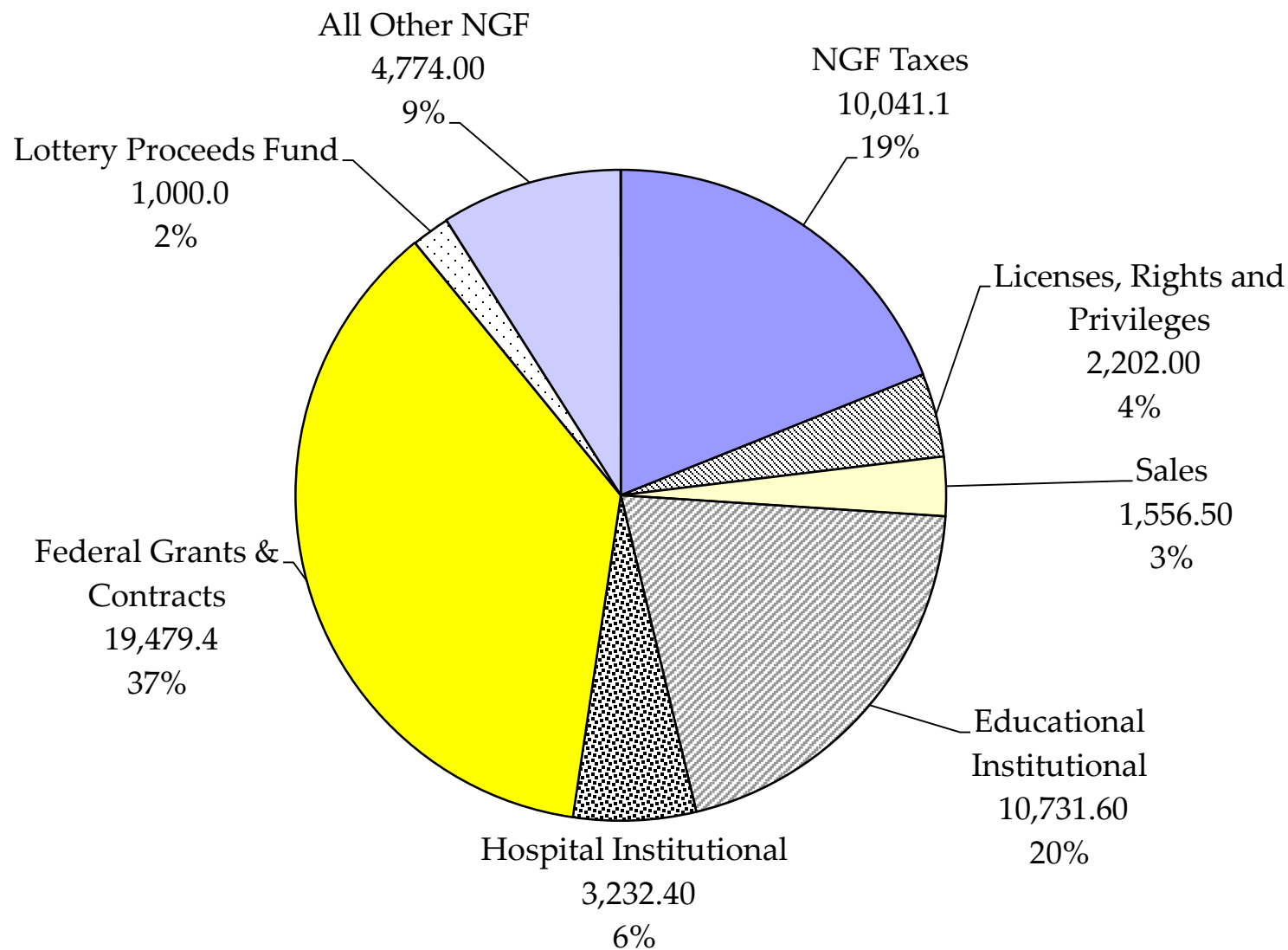
(\$ in millions)



FY 2014-16 Nongeneral Fund Revenues = \$53.0 billion

HB/SB30, as Introduced

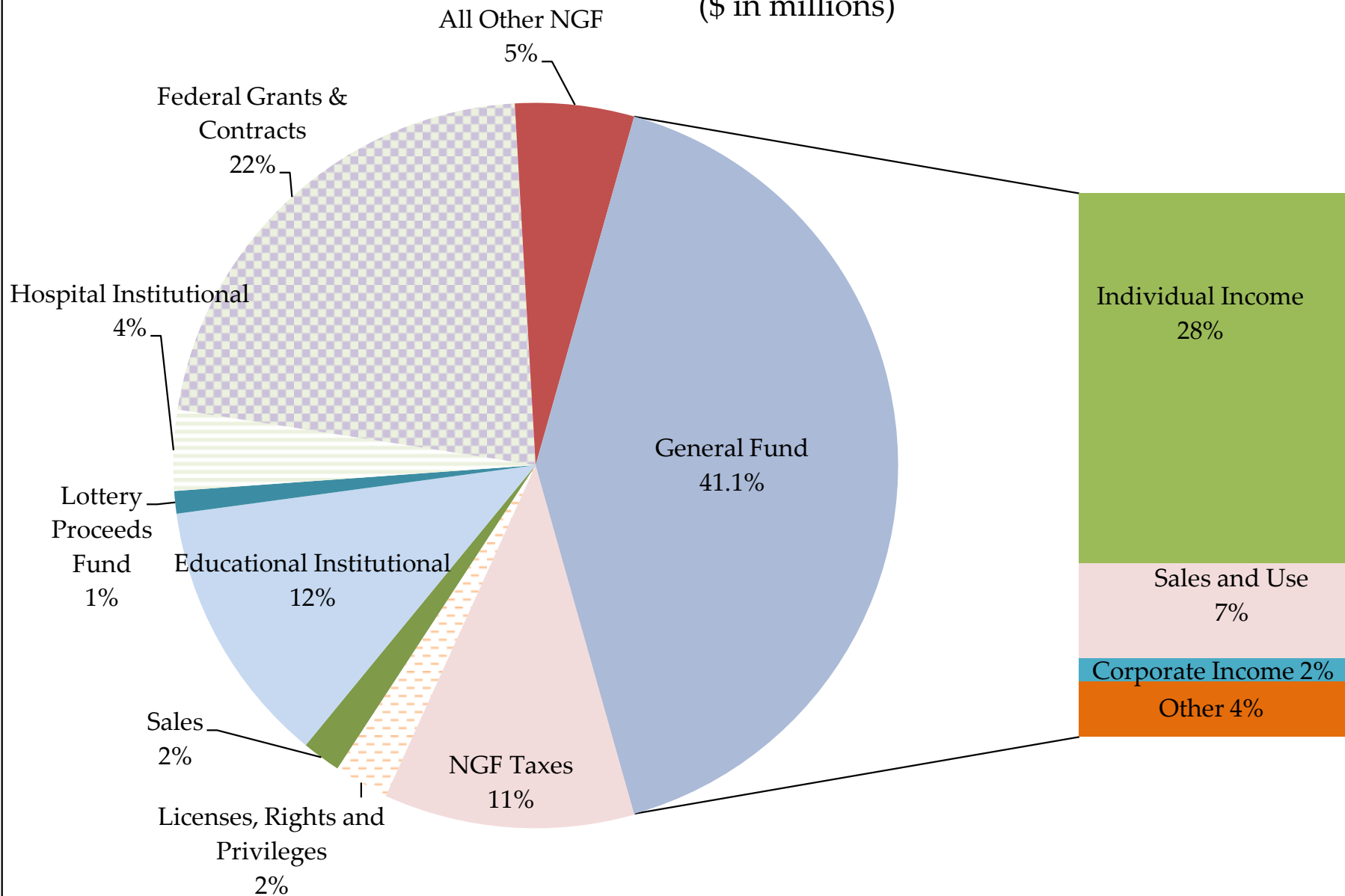
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FY 2014-16 Total Revenues = \$90.1 billion

HB/SB30, as Introduced

(\$ in millions)



FY 2014 GF Operating Budget = \$17,737.0

HB/SB 29

(\$ in millions)

