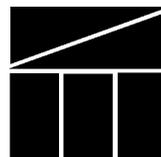


Governor Warner's proposed amendments to the 2004-2006 biennial budget

*A briefing for the Senate Finance
Committee, the House Appropriations
Committee, and the House Finance
Committee*

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Outline of presentation

June 30, 2004, balances

Additional resources for the 2004-06 biennium

Six-year spending forecast

Governor Warner's budget objectives

Specific actions to achieve objectives

Capital outlay program

Summary of general fund amendments

Virginia Ended Fiscal Year 2004 With a Substantial Surplus But Most of It Is Committed and Not Available for On-Going Programs

	<u>\$ in Millions</u>
Available General Fund Balance 6/30/04	\$ 769.5
Less: Balance Anticipated in Appropriation Act on 6/30/04	<u>273.9</u>
Net Available Balance	\$ 495.6
Commitments:	
Additional Revenue Stabilization Fund Payments	\$ 229.4
Capital and Operating Expense Reappropriations	121.4
Natural Disaster Costs	36.3
Water Quality Improvement Fund	32.4
Return of Accelerated Sales Tax to Transportation	23.8
FY 2004 Lottery Proceeds Due Local Schools	8.8
Repayment of Interest to Nongeneral Fund Accounts	7.6
Other Miscellaneous Costs	<u>0.3</u>
Subtotal	\$ 460.0
Remaining Available Balance	\$ 35.6

Additional Resources Offer Budgetary Choices, But the Challenge is to Avoid Another Boom and Bust Cycle

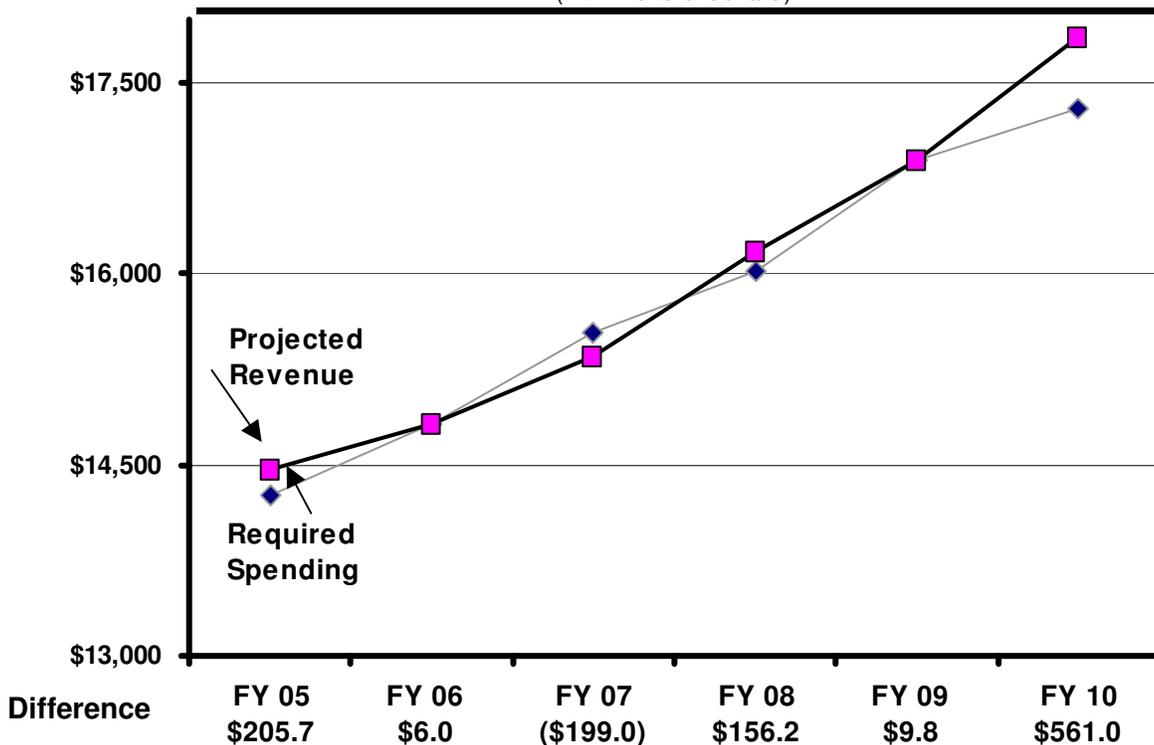
\$ in Millions

Additional General Fund Resources:

Net Revenue	\$	789.7
Transfers:		
Lottery Proceeds		68.3
ABC Profits		10.0
Tax Partnership Balances		10.7
Debt Collections and Cost Recoveries		6.6
Other Transfers		12.7
Total	\$	898.0

A Six-Year Financial Projection Indicates That a Tight Fiscal Situation Re-emerges in Fiscal Year 2007

**Required Spending Exceeds Projected Revenue
In Fiscal Year 2007 and Tracks Closely to Projected
Revenue Through 2010**
(in millions of dollars)



Increased demands for the 2006-08 biennium come from:

- Rebasing of the SOQ school aid formula for revised costs including the new standards.
- Continuing upward trend in Medicaid utilization in the face of rising medical costs.
- Fully funding the car tax cap.
- Opening two new correctional facilities and the expansion of two existing facilities.
- Rising retirement costs attributed to recent economic downturns and an aging workforce.
- Increasing debt service costs as authorized debt is issued.
- Depositing required payments to the Revenue Stabilization Fund.

Governor Warner's Proposed Budget Amendments Reflect Four Basic Objectives

Objectives:

1. Continue efforts to reform the tax code;
2. Maintain the Commonwealth's financial stability for the long-term;
3. Make focused investments that will pay measurable returns in the future; and
4. Meet the Commonwealth's basic commitment to transportation, education, health, and other core services.

Objective #1: Continue Efforts to Reform the Tax Code

- The proposed budget amendments include \$24 million as a transition between the current Personal Property Tax Relief Act (PPTRA) and the \$950 million capped program that will be implemented beginning January 1, 2006. This funding covers the cost of reimbursements for delinquent bills filed by taxpayers for tax year 2005 and earlier that would otherwise not be reimbursed by the Commonwealth.
- Governor Warner's budget amendments also fund proposed legislation to complete the planned reduction in the sales tax on food on July 1, 2005. The impact of this policy change is \$99.1 million in fiscal year 2006.
- Finally, the proposed budget conforms Virginia's tax code with approximately 200 provisions in the federal Working Families Tax Relief Act of 2004 and the American Jobs Creation Act of 2004. The impact of this policy change is \$6.7 million over the biennium.

Objective #2: Maintain the Commonwealth's Financial Stability for the Long Term

- The Governor's budget adds \$229.4 million for the Revenue Stabilization Fund, which will restore the balance of the Fund to more than \$800 million by the end of fiscal year 2008 based on the revised revenue estimates in the budget.

Revenue Stabilization Fund

<u>Fiscal Year</u>	<u>Constitutional Deposit</u>	<u>Super Deposit</u>	<u>Fund Balance*</u>
2005	\$ -	\$ 134.5	\$ 482.0
2006	181.9	-	677.0
2007	36.4	-	732.0
2008	64.3	-	816.0

*Includes projected interest earnings

- The Governor's recommendations also emphasize one-time spending (transportation, capital outlay, etc.) as opposed to ongoing spending. Nearly 60 percent of recommended new funding from the general fund is for one-time costs.
- Lastly, the budget amendments contain no new tax supported debt. A pay-as-you-go capital program of \$166.5 million from the general fund is included, consistent with the long-term fiscal outlook.

Nearly 60 Percent of Recommended New Funding From the General Fund Is for One-Time Costs

- Examples of one-time recommendations include:
 - \$350.0 million for transportation
 - \$229.4 million in Revenue Stabilization Fund deposits
 - \$121.1 million for general fund pay-as-you-go capital outlay which includes:
 - \$69.3 million for cost increases in previously funded capital projects;
 - \$31.6 million for equipment for previously funded projects coming on-line this biennium; and
 - \$20.2 million in other pay-as-you-go capital outlay projects
 - \$32.4 million in deposits to the Water Quality Improvement Fund
 - \$24.0 million to assist localities impacted by the delay in 2006 car tax reimbursements
 - \$16.1 million for the Virginia Works program

Objective #3: Make Focused Investments That Will Pay Measurable Returns in the Future

Investments in K-12 Education Include:

- \$1.6 million to advance a school-based program to offer breakfast to students, as part of the Governor’s “Healthy Virginians” campaign.
- Language amendment to provide an additional \$20.0 million in Literary Fund money to address school construction projects on the Board of Education’s First Priority Waiting List.

Investments in Higher Education Research Include:

- \$3.5 million to further strengthen three promising research programs to improve Virginia’s competitive position in higher education research, to fund reference resources for researchers, and to advance science and engineering education that have the potential to sustain and expand Virginia’s technology economy.
 - Host-Pathogen-Environment Interaction (HPEI) Program at Virginia Tech.
 - Morphogenesis and regenerative medicine research program at the University of Virginia.
 - Computation and modeling research and partnerships through the Virginia Modeling, Analysis, and Simulation Consortium (VMASC) at Old Dominion University.

Objective #3: Make Focused Investments That Will Pay Measurable Returns in the Future (cont'd)

Investment in Virginia Works Includes:

- \$20.9 million (including \$2.0 million for the Governor's Development Opportunity Fund) for a number of programs to provide new, targeted economic development tools for rural and distressed communities that will strengthen and support existing businesses and new businesses of all sizes across multiple industry sectors.

Virginia Works for Existing Business (\$4.0 million)

- Over \$4 million for two regional consortium grants to support specifically identified current and future workforce training needs of existing businesses in distressed regions of the state.

Virginia Works for New Business (\$10.1 million)

- Nearly \$3 million to acquire and develop a 38-mile section (from the Halifax County line to Lawrenceville) for the state's "rails to trails" effort.

Objective #3: Make Focused Investments That Will Pay Measurable Returns in the Future (cont'd)

Virginia Works for New Business (cont'd)

- \$0.4 million to create a New Virginia Trails program that links, through marketing and signage, a series of existing but related sites and venues including the Crooked Road Music Trail, the Virginia Birding Trail, the Virginia Civil Rights Freedom Trail, and the Civil War Trail.
- \$0.3 million for technical assistance to communities and businesses for tourism development support.
- \$0.1 million for the Virginia Enterprise Initiative to provide special targeted assistance to entrepreneurs and micro-businesses in the tourism sector.
- Nearly \$5.0 million for the Virginia artisan initiative.
 - \$0.2 million to support an artisan network organization that will provide marketing assistance and services to professional artisans in Virginia.
 - \$0.2 million to the Virginia Community College System to develop and implement a curriculum focused on the entrepreneurial and craft skills needed for students to become professional artisans.
 - \$0.1 million to the Department of Education to develop a regional summer Governor's School program focused on a range of cultural subjects such as regional music, instrument making, and pottery.

Objective #3: Make Focused Investments That Will Pay Measurable Returns in the Future (cont'd)

Virginia Works for New Business (cont'd)

- \$4.1 million to develop two regional artisan centers to serve as tourism destinations and sales venues for artisan products.
- \$0.1 million to develop a Virginia Artisan Trail that will direct tourists to existing artisan venues in the western part of the state.
- \$0.3 million to support an artisan production facility to be developed in the coalfields region of Virginia. The facility would provide space and equipment for artisans to make their crafts.
- Nearly \$1.1 million to strengthen advanced manufacturing in Virginia's distressed areas:
 - \$0.4 million to the Virginia Community College System to complete development of a new advanced manufacturing/packing program at Dabney Lancaster Community College.
 - \$0.1 million to Virginia Tech to support the Sloan Foundation Forestry Industries Center.
 - \$0.2 million to the Virginia Economic Development Partnership to assist small manufacturers with the export of advanced manufacturing products.

Objective #3: Make Focused Investments That Will Pay Measurable Returns in the Future (cont'd)

Virginia Works for New Business (cont'd)

- \$0.4 million to the Virginia Community College System to be provided to Virginia's Philpott Manufacturing Extension Partnership to support the creation of the Virginia Small Manufacturing Assistance Program, which will provide targeted assistance to the startup of new, and the expansion of existing, small advanced manufacturing businesses in rural Virginia.
- \$0.2 million to the Virginia Department of Agriculture and Consumer Services to develop and implement a program to facilitate the development and marketing of high-value specialty agricultural production.
- \$0.1 million to the Virginia Department of Agriculture and Consumer Services to be provided to Virginia Tech and Virginia State University for additional research and field tests of specialty crops to determine which crops are best suited to Virginia conditions.

Virginia Works for Strengthened Communities (\$4.7 million)

- \$0.6 million to establish a community development financial institution to provide business and housing loans. The institution will be capitalized with about \$15 million in existing assets.
- \$0.1 million to support increased access to New Market tax credits, a federal program designed to stimulate private investment in distressed communities.

Objective #3: Make Focused Investments That Will Pay Measurable Returns in the Future (cont'd)

Virginia Works for Strengthened Communities (cont'd)

- \$4.0 million to be deposited to the Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund (\$2.0 million to be allocated for grants to assist localities and economic development authorities in rural areas of Virginia to acquire and redevelop closed industrial sites).

Investments in Public Safety Include:

- \$1.2 million to increase the availability of sanctions other than jail or prison for technical probation and parole violators. Space in these facilities is needed for more serious and violent offenders. This initiative would add alternatives (including home electronic monitoring, a pilot “return to custody” program and two additional day reporting centers) to the sanctions available to judges and probation and parole officers.

Investments in Natural Resources Include:

- More than \$2.0 million and 27 positions for state park operations and staffing. Provides staff, equipment, supplies, and other costs for parks with State Park and Natural Area General Obligation Bond construction projects that will be completed this biennium. Includes 10 park rangers for public safety at other parks.

Objective #3: Make Focused Investments That Will Pay Measurable Returns in the Future (cont'd)

Investments in Technology Include:

- \$1.6 million to finance a biotechnology loan program, providing for technology commercialization activities related to biotechnology inventions.
- \$0.5 million to update Virginia's aerial photography database in support of 911 services, homeland security, tax assessment, transportation planning, and economic development.
- \$0.3 million to expand statewide technology strategic planning and project management.

Objective #4: Meet the Commonwealth's Basic Commitment to Provide a Cash Infusion for Transportation

- In recent years, numerous studies on transportation have concluded that Virginia's transportation needs outstrip available resources by a substantial margin.
- Any long-term solution to Virginia's transportation issues will require multiple ideas and approaches plus additional resources.
- Governor Warner's proposed budget amendments provide a large cash infusion for transportation totaling more than \$824 million. While much of this revenue is one-time and does not constitute a permanent fix for Virginia's transportation issues, it does provide substantial additional resources for transportation.

Objective #4: Meet the Commonwealth's Basic Commitment to Transportation

- Additional funds are provided for the following transportation efforts:
 - \$140.0 million for a Private Partnership Revolving Fund to create an incentive fund for private developers to work with the state in constructing needed infrastructure projects;
 - \$256.4 million to eliminate deficits on projects which are complete but which would still require future construction allocations;
 - \$80.0 million for a Mass Transit Partnership Fund to encourage localities to undertake new mass transit projects and address existing mass transit maintenance needs;
 - \$80.0 million for a Local Partnership Fund to encourage local governments to manage and oversee road construction projects within their boundaries;
 - \$23.2 million for a Rail Partnership Fund to provide a dedicated source of revenue for rail projects;
 - \$97.4 million to address maintenance needs throughout the Commonwealth; and
 - \$147.0 million to flow through the state funding formula to the benefit of all modes of transportation.

Objective #4: Meet the Commonwealth's Basic Commitment to Transportation

The sources of funding for the Governor's transportation recommendation are:

- A one-time re-payment from the general fund (\$350.0 million)
- Transportation funds that had been appropriated to non-transportation agencies or transferred to the general fund (\$23.6 million general fund appropriations will be provided to replace the transportation funds)
- The return of auto rental tax collections to Transportation (\$23.2 million for Rail Partnership Fund)
- Additional federal grants (\$228.3 million)
- Additional state transportation funds (\$198.9 million)

Objective #4: Meet the Commonwealth's Basic Commitment to Fund Core Services

K-12 Education Recommendations Include:

- \$54.8 million to provide a 3.0 percent salary increase for all public school employees effective December 1, 2005.
- \$35.2 million due school divisions from additional lottery proceeds collected in fiscal year 2004 and projected additional proceeds in fiscal year 2005 and fiscal year 2006.
- \$19.7 million to address revised student counts for the English as a Second Language (ESL) and the special education programs; to update for the latest non-professional retirement contribution rate; and to correct school level enrollment data.
- \$13.0 million for the Standards of Quality to account for revised sales tax projections.
- \$3.0 million for approved General Educational Diploma (GED) centers to increase the number of instructional classes, the frequency of testing, and the number of testing locations.
- \$0.2 million for training of school board members as part of the Partnership for Achieving Successful Schools (PASS) program.
- \$0.2 million to conduct academic reviews of schools that have been “Accredited with Warning.”

Objective #4: Meet the Commonwealth's Basic Commitment to Fund Core Services (cont'd)

Higher Education Recommendations Include:

- \$11.1 million for additional student financial aid to keep college affordable for Virginians in light of recent tuition and fee increases. (Includes undergraduate, graduate, and military dependents.)
- \$1.8 million to increase the Tuition Assistant Grant (TAG) award for students in Virginia's independent, nonprofit colleges by \$100 for undergraduates and graduate students.
- \$16.4 million to expand educational opportunities to help colleges absorb 51,000 new in-state students this decade, and to make sure students complete their degrees in a timely manner. Includes help for preparing low-income middle and high school students to qualify for and succeed in college, plus assistance for other high school students to earn college credits during the senior year.
- \$2.3 million to encourage students who are not college bound to continue working toward high school graduation while pursuing technical training. Also provides funds to train students in high demand health care fields.
- \$11.7 million for a faculty salary increase to help colleges and universities attract and retain faculty.
- \$2.5 million to operate and maintain new facilities at institutions of higher education that will be completed during fiscal year 2006.

Objective #4: Meet the Commonwealth's Basic Commitment to Fund Core Services (cont'd)

Health and Human Resources Recommendations Include:

- \$189.2 million general fund and \$207.2 million nongeneral fund to address Medicaid growth in enrollment and cost of services.
- \$19.8 million to increase Medicaid rates by 34 percent to improve access to obstetrical care and to expand eligibility for pregnant women.
- \$3.8 million for a 10 percent rate increase to improve access to dental services under Medicaid.
- \$9.4 million general fund and \$33.4 million nongeneral funds to address mandated Temporary Assistance for Needy Families (TANF) cash assistance and childcare caseload.
- \$0.5 million to support additional assisted living facility inspectors and \$4.0 million to raise facility payment rate by \$50 from \$894 to \$944 per month.
- \$2.7 million for local departments of social services to improve child welfare services.
- \$3.6 million for housing, community transition, case management, independent living skills, and guardianship related to Olmstead implementation.
- \$2.9 million to expand mental health crisis stabilization efforts.
- \$6.9 million to meet increased cost of anti-psychotic and other medications.
- \$4.5 million to ensure the availability of early intervention services for developmentally disabled children.

Objective #4: Meet the Commonwealth's Basic Commitment to Fund Core Services (cont'd)

Public Safety Recommendations Include:

- \$1.5 million to increase the number of forensic science staff to mitigate rising caseloads and backlogs in the analysis of controlled substances, DNA, and latent prints evidence; to expand the lab space at the Norfolk regional forensic facility; and to establish a new mitochondrial DNA laboratory.
- \$1.5 million to begin phasing in implementation of the Compensation Board's staffing standard for offices of the Commonwealth's Attorneys and to convert three part-time Commonwealth's Attorneys to full-time positions.
- \$1.1 million to strengthen the state's efforts to curb gang violence by providing funding for full-time state trooper positions to investigate gang activities and for positions to train juvenile correctional officers and local prosecutors on gang-related issues.
- \$0.8 million to support 28 law enforcement deputies in 18 localities in order to maintain the standard of one deputy per 1,500 in population.
- \$1.3 million to enhance the use of adult and juvenile correctional centers to allow more effective use of bed space, as well as to increase the number of beds available in the existing correctional systems.
- \$6.7 million to address projected increases in indigent defense costs.
- \$4.2 million for the HB 599 revenue sharing program for law enforcement.

Objective #4: Meet the Commonwealth's Basic Commitment to Fund Core Services (cont'd)

Economic Development Recommendations Include:

- \$2.0 million (for a biennial total of \$23.0 million) for the Governor's Development Opportunity Fund.
- \$2.0 million for a semiconductor education grant to Virginia Commonwealth University's School of Engineering in support of the Infineon Technologies, Inc. major expansion.
- \$1.5 million for housing supplements for people with disabilities (supports Olmstead).
- More than \$0.7 million to replace equipment and for high-speed broadband access in Forestry's 69 area offices.
- \$0.5 million to address increased demands in the workforce services program.
- Almost \$0.5 million to staff and operate the new Office of the Secretary of Agriculture and Forestry.
- More than \$0.1 million to match federal funds for occupational safety and health program.
- \$0.2 million for Advantage Virginia Incentive Program and Career Readiness Certificate program.

Objective #4: Meet the Commonwealth's Basic Commitment to Fund Core Services (cont'd)

Natural Resources Recommendations Include:

- More than \$50 million for natural resources programs over the biennium, including operating and capital.
- \$32.4 million for the Virginia Water Quality Improvement Fund (\$16.2 million for point source pollution control and \$16.2 million for nonpoint source pollution reduction).
- \$1.3 million to repay the treasury loan used to provide Litter Control and Recycling Fund formula grants to localities in fiscal year 2005.
- \$0.7 million to begin to repair dams in state parks.
- \$0.2 million to improve public access and enhance wildlife management of natural area preserves.
- \$0.7 million to provide technical and financial assistance to localities to develop water supply plans.
- Almost \$0.2 million for historic surveys of localities and archeological surveys of threatened sites of historic significance.
- \$0.1 million to support collaborative reviews of military installation projects affecting historic structures.
- \$0.3 million for five additional marine patrol officers to address homeland security responsibilities.
- Almost \$0.5 million to cover utility costs and additional staff associated with the new Virginia Museum of Natural History.

Objective #4: Meet the Commonwealth's Basic Commitment to Fund Core Services (cont'd)

Employee Compensation Recommendations Include:

- \$107.8 million to increase the salaries of Virginia's classified employees, faculty, teachers, and other state-supported local employees.
 - State employees will receive a 3 percent increase effective November 25, 2005, if they fully meet their performance expectations. This action will keep the Commonwealth competitive, and help it attract and retain an educated, dedicated, and motivated workforce.
 - Faculty at the Commonwealth's public institutions of higher education will receive, on average, a 3 percent increase effective November 25, 2005.
 - Public school employees funded through the Standards of Quality and state-supported local employees, including constitutional officers and their employees, local social services employees, local election board employees, local health employees, local juvenile justice workers, Community Services Board employees, and others, will also receive a 3 percent salary increase effective December 1, 2005.
- \$32.6 million to cover the general fund share of employee health insurance premium increases for state employees. This funding addresses the increases in utilization and costs. Although employee premiums will increase, there will be no changes in coverage, deductibles, or co-payments.

Objective #4: Meet the Commonwealth's Basic Commitment to Fund Core Services (cont'd)

General Government Recommendations Include:

- \$1.9 million to support Center for Innovative Technology's defense and homeland security, nanotechnology, life sciences, and small technology business assistance services.
- \$0.6 million to enhance services to veterans including increased staffing for benefit coordination.

Providing Substantial Capital Program with No Debt

Capital Outlay Recommendations Include:

- \$561.6 million (including \$166.5 from the general fund) to fund capital projects with no additional tax-supported debt.
- \$31.6 million to fund the purchase of equipment for 27 capital projects previously authorized by the General Assembly, allowing these projects to progress on schedule.
- \$45.4 million in additional funding to 42 agencies for essential maintenance projects.
- \$69.3 million to fund unanticipated cost increases for 65 previously approved projects.
- \$20.2 million to fund emergency projects throughout the Commonwealth.
- A net increase of \$225.1 million in nongeneral fund dollars to fund 27 higher education projects and three agency projects.
- A net increase of \$170.0 million in institutional debt (revenue bonds) to fund 23 projects at 11 higher education institutions.

Summary: General Fund Budget Amendments for 2004-06 Biennium

\$ in Millions

Resources:

Available Balance From 6/30/04	\$	35.6
Net Additional Revenue		789.7
Transfers		108.3
Appropriation Act Unspent Balance on 6/30/06		<u>15.2</u>
Total Additional Resources	\$	948.8

Spending:

Operating Expense Amendments*	\$	776.3
Capital Outlay Amendments		<u>166.5</u>
Total Additional Spending	\$	942.8

Ending Balance 6/30/06 \$ **6.0**

*Additional Revenue Stabilization Fund and Virginia Water Quality Improvement Fund payments as well as fiscal year 2004 surplus lottery proceeds due localities are funded from the June 30, 2004, general fund balance.

Where to Find Detailed Information

For Greater Detail See
Budget Document
on the website of the
Department of Planning and Budget

www.dpb.virginia.gov