PART A

READER'S GUIDE AND OVERVIEW

HOW VIRGINIA'S BUDGET IS DEVELOPED AND ADOPTED

Virginia has a biennial (two-year) budget system. The biennial budget is enacted into law in even-numbered years, and amendments to it are enacted in odd-numbered years. For example, the current budget for the 2006-2008 biennium was adopted by the 2006 General Assembly, Special Session I. Amendments to this two-year budget will be considered by the General Assembly during its 2007 session.

Developing the Commonwealth's budget is a process that takes many months, involving participation from state agencies, the legislature and the public. The process includes five distinct phases: agency budget preparation, budget development, Governor's review, legislative action, and budget implementation.

Phase 1 – Agency Budget Preparation

Each executive branch agency analyzes its programs and needs through a strategic planning process that includes a review of its mission and how well it serves constituents through customer satisfaction surveys or other methods of public input. Based on this analysis, every agency prepares and submits its requests for funding to the Department of Planning and Budget (DPB), generally in early fall.

Phase 2 – Budget Development

DPB analyzes the budget requests of agencies to verify costs. It confirms the need for services, investigates alternatives for funding, and identifies policy issues for the Governor's consideration. This analysis occurs in the fall following receipt of budget proposals.

In late fall, the Governor and his cabinet secretaries collaborate to prepare a proposed budget that allocates resources among state activities based on consideration of the administration's priorities. DPB provides staff support.

The Governor submits his proposed budget to the General Assembly on or before December 20 in the form of a bill. (In 2006, the Governor will present his budget proposals on December 15). A budget document is distributed by the Governor's Office explaining the proposed budget.

Phase 3 – Legislative action

The General Assembly convenes annually on the second Wednesday of January. In each house, the budget bill is referred to committees which hold public hearings and committee discussions. In the House of Delegates, the House Appropriations Committee reviews the budget bill. In the Senate, the budget bill is referred to the Senate Finance Committee. The committees may introduce amendments to the budget bill.

After review by each of these committees, the amended budget bill is brought to the floor of each house, where other amendments may be made. Each house votes on the amended budget bill. After each house votes on its own version of the budget bill, the bill "crosses over" to the other house where it is again debated and voted on. Before the General Assembly session adjourns, a conference committee resolves any differences between the versions passed by the two houses.

The General Assembly then sends the enrolled Budget Bill to the Governor for his signature.

Phase 4 – Governor's Review

The Governor reviews the bill passed by the General Assembly. He may sign it, veto the entire bill or certain line items, or recommend amendments. If the Governor vetoes the bill or any items of the bill, it goes back to the General Assembly during a reconvened session in the spring. If he recommends amendments, the bill is returned to the reconvened session for consideration and action by the General Assembly on the Governor's proposed amendments.

Phase 5 – Budget Implementation

The budget passed by the General Assembly and enacted into law goes into effect on July 1 in even-numbered years and on the date of passage in odd-numbered years. The Commonwealth's 2006-2008 budget went into effect on July 1, 2006. Any amendments to it that may be passed by the 2007 General Assembly will become effective upon passage.

The Capital Budget Process

The process for determining the Commonwealth's capital budget follows a slightly different path from development of the operating budget.

Every two years, all state agencies with physical facilities develop a six-year capital outlay plan in which they identify long-term capital requirements. Agencies rank the projects in priority order and justify the need for each with respect to programs and services.

The long-range capital plan assists the Commonwealth in staying within the limits of its self-imposed debt capacity limits. It distinguishes between immediate capital needs and longer-term demands, assesses the state's ability to meet its highest priority capital requirements, and outlines an approach for addressing priorities in terms of costs, benefits, and financing.

DPB analyzes the programmatic need for the projects and assesses the impact that each project will have on future operating costs. The Department of General Services (DGS) reviews selected project's budget and the technical aspects of the project. For certain high-priority projects, interagency teams, consisting of representatives from DPB, DGS, the requesting agency, and House and Senate money committee staffs, are established to review the project budget and design.

After review of agency six-year capital plan submissions and analysis of the need for each project, the Governor and his cabinet secretaries work together to prepare a capital budget in the same way they prepare an operating budget. The Governor's proposed capital and operating recommendations are contained in the same budget bill, which undergoes legislative action.

Since this is an odd-numbered year, capital requests were submitted with agency operating requests. The review, however, followed the before-mentioned process.

Key Dates for Amending the 2006-2008 Biennial Budget	
September 2006	Instructions are issued to agencies on preparing and submitting their proposed budget amendments.
October 18, 2006	Agencies submit their budget proposed budget amendments to DPB.
December 15, 2006	Governor submits recommended budget amendments to the General Assembly.
January 10, 2007	General Assembly convenes.
February 4, 2007 (tentative date)	Money committees report budgets.
February 8, 2007 (tentative date)	Budget bill crossover occurs.
February 24, 2007 (tentative date)	General Assembly adjourns.
April 4, 2007 (tentative date)	Reconvened General Assembly session is conducted.

READER'S GUIDE TO THE COMMONWEALTH'S BUDGET DOCUMENT

This publication describes Governor Kaine's proposed budget amendments to the Commonwealth of Virginia for the 2006-2008 biennium. Additional information regarding agency strategic plans and performance management, including service area budget tables, may be accessed via: www.vaperforms.virginia.gov. The budget document contains the following components:

Part A: Introduction

This section contains: (1.) highlights of Governor Kaine's proposed budget amendments, (2.) an *Economic Forecast* outlining the status of Virginia's economy, and (3.) a *Revenue Forecast* reviewing the Commonwealth's fiscal outlook to include the projected revenues on which the preceding budget amendments are based.

Part B: Operating budget

Part B presents the Governor's proposed amendments for the operating budget. This section is organized by the three branches of government (Legislative, Judicial, and Executive). The Executive Department section is also organized by secretarial area. For each branch of government or secretarial area, you will find:

Overview:	The branch's major functions of government or secretarial area.
Agency Listing:	A listing of each agency within the branch of government or secretarial area.
Summary Graphs:	Depict using the financing of secretarial areas by funding source and the General Fund and Nongeneral Fund operating budget history for secretarial areas.
Initiative Summary:	A narrative summary of proposed budget actions for the secretarial area.

For each individual agency you will find:

Agency Name:	Agency's proper name and Website address.
Mission Statement:	The organization-wide strategic direction, and the organization's purpose.
Agency Goals:	Broad, general statements of long-term results needed to achieve the mission and vision of the agency. Goals are clarified by the associated key objectives.
Customers Served:	The primary persons, groups, or organizations impacted by the products and services of the agency.
Agency Budget Summary Table:	The Governor's operating budget amendments for the 2006-2008 biennium, including agency historical funding data and capital outlay amendments. The categories related to funding are general fund, nongeneral fund, personnel costs, and other costs. Also, there is a category indicating an agency's

	maximum number of allowed positions. ***TABLE NOTES:*** All figures represent dollars rounded to the millions; due to rounding, figures may not add exactly; figures in parenthesis are negative amounts; and agencies appear in the same order as in the Budget Bill.
Recommended Operating Budget Amendments:	"Bullet items" briefly describing specific budget recommendations for specific agencies. If the Governor has no specific recommendations for an agency, you will find the word "none" following the subject heading. Within each "bullet item," amounts and positions recommended are designated either "GF" (general fund) or "NGF" (nongeneral fund). References to positions are to "full-time equivalent" (FTE) positions. Positions are only mentioned in the initial year affected by a budget amendment.
Capital Outlay Amendments:	"Bullet items" briefly describing any amendments to previously approved capital construction projects or funding for new projects. If the Governor has no specific recommendations for an agency, you will find the word "none" following the subject heading. Within each "bullet item," amounts recommended are designated either "GF" (general fund) or "NGF" (nongeneral fund).
Agency Key Objectives:	The most important functions that are considered critical to carrying out the agency's mission. The success or failure of accomplishing these objectives, determined through key performance measures, will be used to judge agency success.
Performance Measures:	A quantitative measure that describes the magnitude or degree of an aspect of a product, service, or activity performance characteristic over time. This document has performance measures associated with "Agency Key Objectives." A complete listing of up-to-date performance measures for a specific agency may be viewed via: http://vaperforms.virginia.gov/agencylevel/.
Amendments supporting Key Objectives:	A summary of budget recommendations that are directly related to "Agency Key Objectives" describing specific budget recommendations. If the Governor has no specific recommendations for an agency, you will find the word "none" following the subject heading.

Part C: Other Reports

This section has four main components:

Studies and Evaluations:	Various studies, evaluations, and assessments of agencies or agency programs that were conducted in the two most recent fiscal years.
Aid to Localities:	The Governor's recommendations for funds that go directly to localities for locally-operated programs or are spent by the Commonwealth on behalf of localities for specific programs.
Supplemental Information:	Information on tax-supported debt capacity and per capital appropriations,
Miscellaneous Transfers:	Review of actions affecting state debt, revenue transactions, interfund transfers, working capital advances and loans, and required deposits into the general fund.

* *photo of Virginia State Capitol courtesy of the Virginia Department of General Services*

For additional information regarding agency strategic plans and performance management, including service area budget tables, please visit http://vaperforms.virginia.gov/agencylevel/.

GOVERNOR KAINE'S PRESENTATION

AFTER GOVERNOR KAINE PRESENTS HIS AMENDMENTS TO THE 2006-2008 BUDGET TO THE JOINT MEETING OF HOUSE APPROPRIATIONS, HOUSE FINANCE, AND SENATE FINANCE COMMITTEES ON DECEMBER 15, 2006, THIS PORTION OF THE OVERVIEW WILL BE POSTED ON THE DEPARTMENT OF PLANNING AND BUDGET'S WEBSITE AT:
WWW.DPB.VIRGINIA.GOV

Review of FY 2006

The national economy experienced healthy growth in FY 2006, with most measures at or exceeding expectations. Consumer spending remained solid despite deteriorating conditions in the housing market, in part due to strong income growth. Strength in consumer demand encouraged businesses to expand both capital investment and payrolls, leading to a continued expansion in the labor market. Despite these positives, global uncertainty -- including ongoing military operations and their impact on federal budget deficits, as well as escalating energy costs and the cooling housing market -- continued to be a source of caution for investors.

The Virginia economy performed near expectations in FY 2006. Growth in total nonagricultural employment was stronger than projected. Income gains slightly lagged the forecast. The housing market continued at a heated pace, with moderation during the second half of the year. Economic growth was strongest in Northern Virginia, driven by the continued strength in federal government spending. As in prior years, the Commonwealth continued to outperform the nation in FY 2006.

The National Economy Continued on an Expansionary Path

The U.S. economy continued to expand at a healthy pace in FY 2006 although the labor market continued on an uneven expansionary path.

Growth in U.S. Gross Domestic Product moderated to a sustainable rate in FY 2006. The value of all goods and services produced within the U.S., (adjusted for inflation), grew at 3.4 percent in FY 2006. Growth in total personal income was 5.9 percent, while wages and salaries increased by 6.6 percent.

Solid wage growth and the wealth effect from the hot housing market drove consumer spending. Consumer spending grew by 3.3 percent in FY 2006.

The nation's businesses continued to expand their payrolls. Major drivers were construction, professional and business services, and education and health services. Growth in financial activities employment exceeded the forecast by 0.9 percentage point due to the continued strength in the housing market.

The Federal Reserve continued to tighten monetary policy throughout the FY. The federal funds rate target was increased 0.25 percentage points in June to 5.25 percent, the 17th consecutive rate increase.

US Economic Expansion Continues

	Actual		Forecast	
	2005	2006	2007	2008
Real GDP	3.30%	3.40%	2.60%	2.70%
Total Employment*	1.50%	1.50%	1.20%	1.20%
Unemployment	5.30%	4.80%	4.80%	5.00%
CPI	3.00%	3.80%	2.40%	2.20%

*Total nonagricultural employment. Figures represent percent change over previous year except the unemployment rate which is a percentage. Data based on the October 2006 Global Insight standard forecast. Source: Department of Taxation

In Virginia, the economy continued to grow at healthy rates.

The Commonwealth's labor market grew at well-above trend rates through the first nine months of the FY with some moderation occurring in the spring. Employment growth averaged 2.3 percent through March although some moderation in the spring brought the FY 2006 rate down to 2.2 percent.

Employment growth was ahead of expectations in FY 2006. Year-over-year job growth of 2.2 percent was above the forecast of a 1.8 percent annual gain. Total nonagricultural employment increased by 78,600 jobs -- an addition of 14,400 more jobs than forecast -- after increasing by 91,500 jobs in FY 2005. The service sector was the major driver of growth along with trade, transportation, and utilities and construction.

Regional Employment in Virginia During FY 2006:

Northern Virginia

In Northern Virginia, which represents about one-third of all jobs in the state, total employment increased by 3.2 percent -- a gain of 39,800 jobs, over half of total state gains for the year. The service sector as a whole added 23,500 jobs, approximately 60 percent of total gains, including 15,100 in professional and business services, most of which are federal government related. Construction employment was also a bright spot, with growth of 6.4 percent, adding 5,700 jobs. These gains were partially offset by a decline of 2,200 jobs in the information sector. Overall, the region benefited from its proximity to Washington, D.C., with a significant portion of government spending on homeland security flowing to area companies.

Richmond/Petersburg

Employment in the Richmond-Petersburg MSA increased 1.8 percent in FY 2006, an addition of 11,300 jobs. Gains were centered in professional and business services, education and health services, trade, transportation, utilities, as well as in construction. Continued strength in the housing market led to gains in financial activities employment.

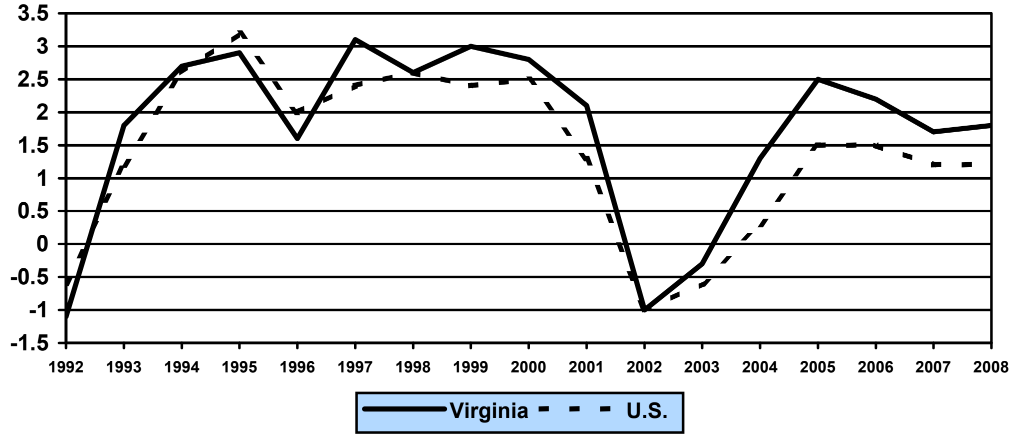
Norfolk/ Virginia Beach/ Newport News

The Norfolk-Virginia Beach-Newport News MSA experienced employment growth of 1.2 percent in FY 2006. The region had a gain of 8,900 jobs, down from 16,200 jobs added in FY 2005. The continued deployment of many of the military personnel situated in the area remained a drag on growth. The tourism industry, long a staple of the area economy, added 1,800 jobs in FY 2006, a growth of 2.2 percent.

Balance of the State

Employment in the balance of the state increased by 18,700 jobs, a growth of 1.8 percent. Gains were strongest in trade, transportation, utilities, along with service employment. Growth in construction and mining employment accounted for 5,500 jobs. The manufacturing sector experienced another annual decline, bringing total job losses to 59,400 jobs (27 percent of the employment base), since declines began in FY 1999. Many rural areas of the state, particularly Southside and Southwest Virginia, are still dependent on manufacturing activity and international trade. Weakness in those sectors continues to be a drag on overall growth.

Virginia employment growth to moderate to long-term trend
Percentage growth in nonagricultural employment



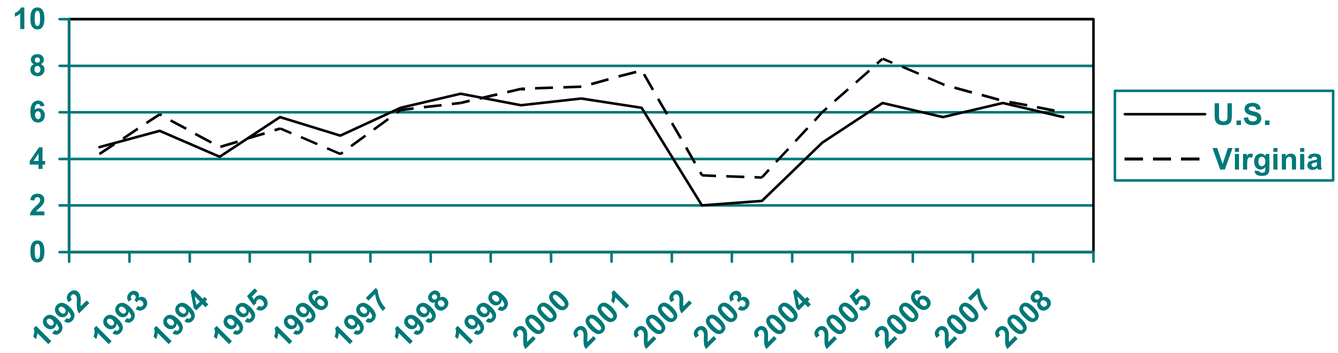
Data for 2007 and 2008 are forecasts. Source: Department of Taxation

U.S. Economic Outlook Expects Moderation in Economic Growth

The October forecast anticipates that the flagging housing market will drag the U.S. economy into an extended period of below-trend growth, while the recent drop in oil prices has reduced the risk of a downturn. At the November meeting of the Governor's Advisory Council on Revenue Estimates, the consensus economic forecast was for slower growth. Highlights of the economic outlook for the next two years include:

- Real GDP is anticipated to grow by 2.6 percent in FY 2007 and 2.7 percent in FY 2008.
- Job growth is expected to slow to 1.2 percent in both FYs 2007 and 2008.
- The slowdown in the housing market and expanding debt burdens will force consumers to rein in spending. On the bright side, falling oil prices will strengthen spending power. Real consumer spending is expected to grow by three percent in FY 2007 and 2.8 percent in FY 2008.
- Business investment, along with exports, is expected to support the economy in the face of a downturn in housing and a modest retreat in consumer spending. Healthy corporate balance sheets are expected to fuel increases in business equipment spending. Growth is expected be centered in information processing equipment, specifically computers and peripherals, as companies work to maximize productivity.
- Inflation is expected to stabilize over the next two FYs, with growth close to two percent over the forecast horizon.
- The Federal Reserve is expected to hold the federal funds rate steady at 5.25 percent for the rest of the year, followed by a cut in rates in March of next year to counter slower growth, with two more rate cuts over the year.

Personal income growth to exceed the nation's over the forecast horizon



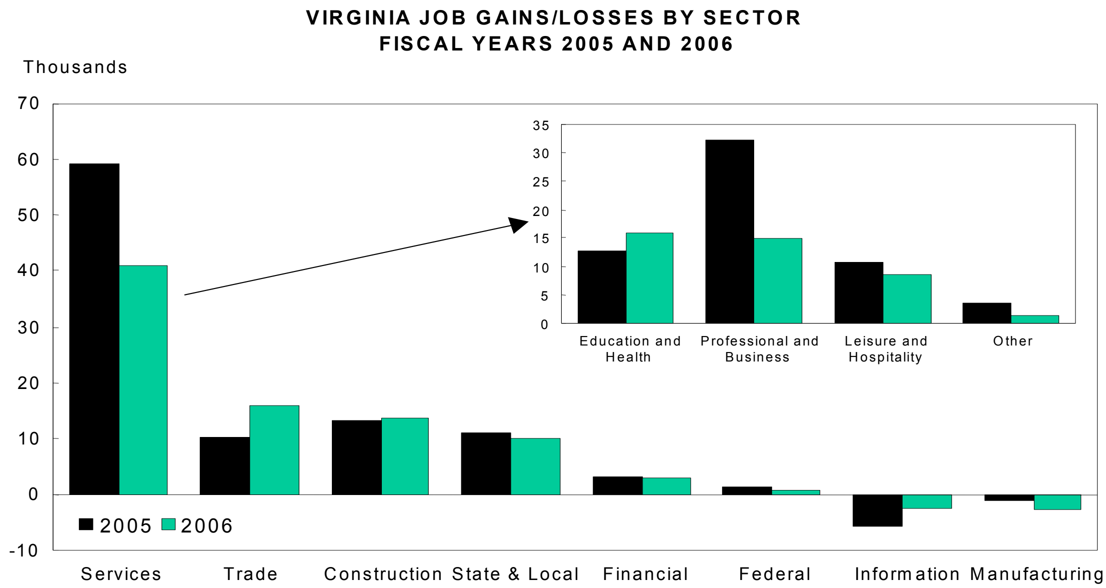
Data for 2006 through 2008 are forecasts. Source: Department of Taxation

FY 2007 Expected to be a Year of Trend Growth

The Virginia economy is expected to grow near trend over the forecast horizon, with growth in employment and income near historical averages. The service sector will continue to contribute the bulk of the gains. High energy prices, expanding debt burdens, and the slowdown in housing represent significant risks to consumer spending. However, expectations are that consumer fundamentals will remain healthy.

Here is a look at what economists are predicting for Virginia:

- Personal income is expected to grow 6.6 percent in FY 2007 and 6.2 percent in FY 2008. Wages and salaries are expected to grow 6.5 percent in FY 2007 and 6.1 percent in FY 2008.
- Employment growth of 1.7 percent and 1.8 percent is expected in FYs 2007 and 2008.
- Employment in the professional and business services sector is forecast to grow at 3.1 percent in FY 2007 and 3.6 percent in FY 2008.
- Construction employment is expected to slow as the housing market slumps, growing at 2.9 percent in FY 2007 and 3.1 percent in FY 2008.
- Employment in trade, transportation, and utilities is expected to grow 1.6 percent and 1.8 percent in FYs 2007 and 2008, respectively.


VIRGINIA JOB GAINS/LOSSES BY SECTOR
FISCAL YEARS 2005 AND 2006
Thousands
70
60
50
40
30
20
10
0
-10
35
30
25
20
15
10
5
0
Education and Health
Professional and Business
Leisure and Hospitality
Other
2005
2006
Services
Trade
Construction
State & Local
Financial
Federal
Information
Manufacturing

REVENUE FORECAST

The Commonwealth's total revenue consists of two types of resources: the general fund and nongeneral fund. Over half of state revenues are "nongeneral funds," or funds earmarked by law for specific purposes. For example, motor vehicle sales and motor fuel taxes are earmarked by law for transportation programs, students' tuition and fees support higher education, and federal grants are designated for specific activities.

General fund revenues are derived from general taxes paid by citizens and businesses in Virginia. Since general fund revenue is not dedicated to any particular purpose and can be used for a variety of government programs, these are the funds that the Governor and the General Assembly have the most discretion to spend.

General Fund Revenues Derived Primarily from Five Major Revenue Sources

The two largest revenue sources in the general fund are the individual income tax and the sales and use tax. Other major revenue sources are wills, suits, deeds and contract fees; corporate income taxes; and taxes on insurance company premiums. These five sources account for about 95 percent of the total while miscellaneous taxes and other revenues contribute the remainder of the general fund.

FY 2006 Collections Driven by Strong Gains in Non-wage Income and Corporate Profits

In FY 2006, total general fund revenues rose by 8.4 percent to $14,834.3 million, exceeding the official forecast (7.3 percent growth) by $147.0 million. Collections in individual nonwithholding and corporate income taxes, two volatile sources, had another year of unusually strong growth in FY 2006 and, together, contributed $119.0 million to the surplus. Payroll withholding added another $82.2 million. Collections of sales and use taxes were very close to the forecast, adding $8.9 million to the surplus. Collections in recordation taxes and the tax on insurance premiums were lower than expected, while refunds were higher than expected, reducing the annual surplus. Collectively, the five major sources ended the year $120.2 million over the forecast.

Collections of miscellaneous taxes and other revenues were $26.8 million above the estimate in FY 2006. The bulk of the surplus was due to higher than expected collections of estate taxes and other revenue.

General Fund Revenue Forecast Reflects Moderating Economic Growth due to Housing Slowdown

The general fund revenue forecast for FY 2007 and FY 2008 illustrates the impact of moderating economic growth, mainly attributable to the strong slowing in the housing market. Corporate profits and non-wage income are expected to experience a deceleration in growth but maintain historically high levels.

General fund revenue growth in FY 2007 was revised up from the 4.2 percent growth projected in last year's official forecast to 6.5 percent growth in the November forecast. Adjusting for the end of the Accelerated Sales Tax program in FY 2006, general fund revenues are expected to increase 5.4 percent in FY 2007. Growth in FY 2008 is expected to be lower than last year's official forecast, falling a little over a percentage point from 5.1 percent to 4.0 percent.

The General Fund Forecast for the 2006-2008 Biennium

	FY 2006	2006-2008 biennium	
	Actual	*Forecast*	*Forecast*
	2006	**2007**	**2008**
Major Tax Sources			
Corporate Income	$871.6	$901.4	$794.9
Individual Income	9,308.6	9,969.6	10,516.9
Insurance Premiums	373.8	384.6	411.1
State Sales & Uses	2,812.7	3,089.5	3,253.2
Wills, Suits, Deeds & Contract Fees	694.7	554.4	554.9
Miscellaneous	772.9	894.0	900.1
Total revenues	$14,834.3	$15,793.5	$16,431.1
Transfers			
ABC Profits	$30.0	$27.3	$29.1
Lottery Profits	454.0	406.3	405.4
Transfers per the Appropriation Act	381.6	360.8	454.0
Total transfers	$865.6	$794.4	$888.5
Total general fund	$15,700.0	$16,587.9	$17,319.6

*Dollars in millions. Excludes balances available for appropriation. Figures may not add due to rounding. Source: Department of Taxation

Major General Fund Revenue Sources Forecast

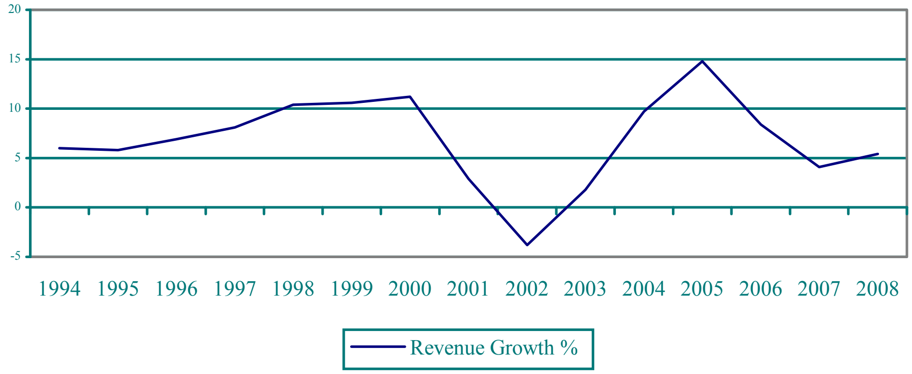
For each of the major categories of general fund revenue, the following describes the actual performance in FY 2006 and the forecast for the next two fiscal years.

Individual Income Taxes

Collections of net individual income taxes grew 11.4 percent in FY 2006, well ahead of the annual estimate of 9.8 percent growth. Receipts of $9,308.6 million exceeded the official estimate by $138.2 million. Most of the surplus resulted from continued strength in collections of nonwithholding payments.

The forecast for net individual income taxes was revised upward substantially over the forecast horizon. The bulk of the increase is attributable to the nonwithholding component, with increases in withholding and refunds practically offsetting each other. Growth in individual taxes is expected to be 7.1 percent in FY 2007 and 5.5 percent in FY 2008.

General fund growth shows maturing expansion
Percent change over previous year



Sales and Use Taxes

Collections of sales and use taxes fell 4.5 percent in FY 2006, a total of $8.9 million ahead of the forecast of a 4.8 percent decline. The decline was driven by two major legislative changes -- the reduction in the tax rate on food sales and the full repeal of the accelerated sales tax program. Removing the effects of recent legislation, underlying growth in sales and use tax was 6.1 percent in FY 2006, compared with the annual forecast of 4.7 percent.

The forecast for collections of sales and use taxes was modified slightly from last year's official estimate. Sales tax collections are expected to increase by 9.8 percent in FY 2007, compared with last year's forecast of 12.2 percent growth. The sharp increase in FY 2007 is driven by the elimination of the Accelerated Sales Tax program in FY 2006. Adjusted for this program, underlying economic-base sales tax growth is 4.1 percent in FY 2007.

Corporate Income Taxes

Corporate income tax collections attained a fourth consecutive year of double digit growth in FY 2006, and the second strongest year on record. The strongest year was FY 2005, with 44.9 percent growth. Average annual growth over the four-year period was 32 percent. Corporate income taxes represent the most volatile revenue source in Virginia. Collections over the last four fiscal years have increased at a double-digit pace, including growth of 44.9 percent and 41.3 percent in fiscal years 2005 and 2006, respectively. This follows two years of double-digit declines. A combination of strong productivity growth and low unit labor costs has allowed firms to build cash holdings, leading to high taxable corporate profits.

The November forecast increases growth in corporate receipts from a 9.6 percent decline to 3.4 growth in FY 2007 -- $113.8 million above last year's official estimate. Corporate income tax collections are projected to decline by 11.8 percent in FY 2008 as home builders, construction supply companies, and mortgage bankers reduce tax payments and request refunds. Despite the decline, the November standard forecast is $14.5 million above the official estimate in FY 2008.

Insurance Company Premiums Taxes

Tax collections on insurance company premiums were $18.7 million below forecast in FY 2006. Collections of insurance premiums taxes are anticipated to increase 2.9 percent in FY 2007 and 6.9 percent in FY 2008.

Wills, Suits, Deeds and Contract Fees

This source fell short of its forecast by $28.3 million to finish the year at $694.7 million, a 16.6 percent increase from FY 2005, but behind the official forecast of 21.3 percent growth. The recordation tax on mortgages accounts for 87 percent of this source. Annual growth in recordation taxes averaged 22.7 percent over the last five years, as refinancing activity and a strong housing market boosted receipts. Adjusting for the rate increase effective in September 2004, collections of recordation taxes grew by 9.9 percent in FY 2006.

Last year's official forecast for wills, suits, deeds, and contract fees predicted collections would fall by 15.4 percent in FY 2007. The November forecast projects a decline of 20.2 percent in FY 2007. Collections are expected to remain flat with FY 2007 levels in FY 2008. The change to the forecast for wills, suits, deeds, and contract fees reduces revenues a combined $143.7 million for FY 2007 and 2008.

Over Half (53 percent) of State Revenue is Nongeneral Fund Revenue

Although most public attention is focused on general fund revenue, over one-half of all revenue in the state budget is nongeneral funds that are earmarked by law for specific purposes.

Nongeneral fund revenue is expected to increase by 12.5 percent in FY 2007, and by 2.3 percent in FY 2008. Nongeneral funds will comprise about 53.4 percent of total state revenue during the 2006-2008 biennium.

Federal Grants and Other Contracts

Federal grants are the largest source of nongeneral fund revenue, more than 38 percent of the total in FY 2006. Frequently these grants do not come to the state as simple cash transfers. The federal government mandates many program requirements as conditions of the grants and, often, states must provide matching funds. The Medicaid program for indigent health care is an example of a federal entitlement program that requires a state contribution.

In FY 2006, federal grants and other contracts totaled $6.3 billion. This source is projected to increase by 22.8 percent to $7.7 billion in 2007, and decline slightly by 0.4 percent in FY 2008. This pattern is caused by the uncertainty surrounding the federal budget and federal domestic spending in the future.

Institutional Revenue

The second largest class of nongeneral fund revenue is institutional revenue. The principle sources of this revenue are patient fees at teaching hospitals and mental health institutions, as well as tuition and fees paid by students at institutions of higher education. In FY 2006, institutional revenue collections were $3.9 billion, about 23.8 percent of all nongeneral fund revenue. Institutional revenues are projected to grow by 8.0 percent in FY 2007 and by 6.0 percent in FY 2008. These growth rates reflect the higher cost of services provided by these institutions.

Transportation Fund

State transportation revenue comes from several sources, including the motor vehicle fuels tax, the motor vehicle sales and use tax, road taxes, vehicle license fees, state sales tax, interest earnings, and other miscellaneous taxes and fees. Money in this fund is used to support highway construction and maintenance and operating costs. Federal, local, and toll revenues are also used to finance transportation programs.

Total FY 2006 transportation revenues amounted to approximately $2.3 billion, an increase of $92.0 million over last year (although nearly $23 million of the increased amount was the FY 2006 addition of the Rail Enhancement Fund to transportation trust fund collections). Total collections ended $42.5 million above the official forecast, a variance of 1.9 percent.

As compared to the official forecast, total state taxes and fees are $41.9 million lower in FY 2007 and $51.1 million lower in FY 2008. FY 2007 growth is estimated to decline 0.3 percent and FY 2008 growth is expected to be 2.8 percent. Most of the downward revisions over the next two fiscal years are the result of moderating economic growth, high-energy prices, and rising interest rates. These negative factors lead directly to diminished expectations in collections of motor fuels taxes and motor vehicle sales and use taxes.

Unemployment Insurance Fund

Unemployment insurance tax collections rise and fall with trends in the economy. Projected collections are expected to be lower each year of the biennium, reflecting an improved economy and an increase in the fund balance factor (solvency level) that governs the tax schedules or formula used to make collections for the Unemployment Insurance Trust Fund. For FY 2006, unemployment tax collections amounted to $535.9 million. For FY 2007 and FY 2008, revenues are anticipated to decline to $456.9 million and $409.9 million, respectively.

Master Tobacco Settlement Agreement Funds

The Master Settlement Agreement (MSA) was signed between the major participating cigarette manufacturers and 46 states, the District of Columbia, and five United States' territories on November 23, 1998. The settlement agreement releases participating manufacturers from past, present, and future smoking-related claims of the states in return for an annual cash payment to the states in perpetuity. These payments are to be adjusted over time for several factors, including inflation and changes in the volume of domestic cigarette shipments.

The Commonwealth's plan for the use of MSA funds has three elements. First, legislation passed by the 1999 General Assembly (Chapter 880, 1999 Acts of Assembly) earmarked 60 percent of the allocation in two separate trust funds. The Tobacco Indemnification and Community Revitalization Fund receives 50 percent of the MSA allocation. This share is used to compensate tobacco growers and tobacco quota holders for the economic loss resulting from quota loss or elimination and to promote economic growth and development in tobacco-dependent communities in the Southside and Southwest regions of the state. Recently, one-half of the annual amount received by this Fund was securitized and turned into an endowment. Thus, the Fund now receives 25 percent of the MSA allocation annually as a recurring revenue source.

The Virginia Tobacco Settlement Fund receives the next 10 percent of the MSA allocation for the purposes of discouraging, eliminating, or preventing the use of tobacco products by minors and for health care. Programs targeted at minors include, but are not limited to, educational and awareness programs on the health effects of tobacco and on laws restricting the distribution of tobacco products to minors.

The final portion of the allocation (40 percent) goes to the Virginia Health Care Fund. This Fund can be used to pay for various health care costs faced by the Commonwealth, including the Medicaid program for indigent health care.

For fiscal years 2007 and 2008, it is anticipated that the Tobacco Indemnification and Community Revitalization Fund will receive $28.4 million, and $33.1 million, respectively. The Virginia Tobacco Settlement Fund will take in $11.4 million and $13.2 million over the same period. The Virginia Health Care Fund will receive $45.4 million and $52.9 million during this two-year period.

Nongeneral Fund Forecast for the 2006-2008 Biennium*

	Actual 2006	Forecast 2007	Forecast 2008
Motor vehicle fuel tax	$931.2	$938.1	$954.8
Unemployment compensation payroll tax	535.9	456.9	409.9
Special highway tax from sales tax	476.3	508.7	536.0
Motor vehicle sales tax and use tax	598.5	587.5	606.0
Other taxes	302.0	341.7	345.3
Rights and Privileges	756.1	789.1	806.0
Sale of property and commodities	664.8	697.1	717.5
Institutional revenue	3,862.1	4,170.8	4,422.1
Interest dividends and rents	136.1	141.9	151.1
Federal grants and contracts	6,304.8	7,741.3	7,712.4
Master Tobacco Settlement Agreement Funds	89.7	85.2	99.2
Other revenue	1,538.1	1,768.5	1,886.0
Total	**$16,195.5**	**$18,226.8**	**$18,646.3**

*Based on December 2007 forecast. Dollars in millions. Figures may not add due to rounding. Total excludes balances and bond proceeds available for appropriation, as well as Lottery, Literary, and internal service funds.

Source: Department of Planning and Budget, based on data submitted by agencies.

BUDGET OVERVIEW

Chapter 3, 2006 Acts of Assembly – Special Session I, as amended by Chapter 10, 2006 Acts of Assembly – Special Session I, provided a biennial budget for 2006-2008 that largely met the needs of the core service areas of state government. Increased spending was provided to both elementary and secondary education, as well as higher education. The Commonwealth funded its commitments to the Medicaid program and provided for the basic needs in the areas of public safety and natural resources, including a significant payment to improve water quality.

As amendments to the current 2006-2008 biennial budget are developed, decision makers must be mindful of the strength of our economy and the source of our economic growth. Virginia's economy has continued to prosper, resulting in increased revenue growth to the Commonwealth. The three most volatile revenue sources comprise approximately one-fourth of the Commonwealth's revenue. The first volatile revenue source, recordation taxes, experienced significant declines in fiscal year 2006. The other two, individual non-withholding (taxes from non-wage sources) and corporate income taxes, continued to grow in fiscal year 2006, but are anticipated to moderate or decline at some point during this biennium. The questions are when such moderation or decline will occur and how significant such a decline might be.

Governor Kaine's budget amendments were developed with the following objectives in mind:

1. Maintain the Commonwealth's financial stability for the long term;
2. Make targeted investments that will enhance Virginia's ability to compete in a global economy; and
3. Meet the Commonwealth's ongoing commitment to fund core services.

Given the desire to meet these objectives, the 2006-2008 biennial budget amendments target much of the new funding for one-time expenses. With the Governor's proposed additional deposits of $152.7 million to the Revenue Stabilization Fund, more commonly called the Rainy Day Fund, the Fund will remain at its Constitutional maximum for the biennium (fiscal year 2007 at $1.2 billion and fiscal year 2008 estimated at $1.3 billion). The introduced budget uses cash rather than tax-supported debt for capital outlay on new projects, cost over-runs, and equipment for buildings coming online with the exception of one major capital outlay project – a new prison. In order to provide funds to continue to improve water quality, the Governor is proposing a tax-supported bond bill that will permit the issuance of debt to provide additional funds for local water quality improvement projects.

The Governor's amendments also implement the Commonwealth's All Hazards Readiness Initiative, a major effort to prepare the Commonwealth for natural and man-made disasters. This initiative stretches across state government, tapping into the roles and expertise of many participating agencies.

Major investments in Virginia's future are supported through one-time funding for key transportation projects and targeted economic development initiatives. Recognizing the importance of our higher education institutions for the Commonwealth's future, substantial investments are made to complete existing projects, provide necessary equipment and plan for new instructional buildings. In addition, the proposed budget fully funds the Standards of Quality for public schools.

The proposed budget includes a variety of initiatives to increase access to healthcare for the uninsured, attract more people to the healthcare workforce, promote prevention and good health for Virginians, improve the quality of healthcare, and reform long-term care. A special emphasis has been placed on children in the context of healthcare and other services for children. The proposed amendments also make significant strides in public safety. This budget, coupled with legislation, provides major tax relief for over 320,000 Virginia filers by increasing the income tax filing threshold from $7,000 for individuals and $14,000 for married couples to $12,000 for single individuals and $24,000 for married couples.

It is important to note that after making the deposit to the Revenue Stabilization Fund, approximately 70 percent of the proposed new spending is dedicated to transportation and higher education, both of which are investments in our future and our economy. Nearly 50 percent of the new spending in the proposed budget amendments is targeted toward specific transportation projects to address specific issues that may impact the economic future of the Commonwealth. In addition, approximately 22 percent of the new spending is proposed to address higher education operating, capital, and equipment costs. These expenditures represent significant one-time investments that will yield benefits well into the future.

Addressing critical transportation projects

Virginia's citizens continue to face many transportation challenges. From traffic congestion to potholes, all of Virginia has some kind of transportation need. As Virginians lose hours of time with their families in traffic every day and commerce is threatened by congestion and lack of infrastructure, the urgency of our transportation needs are underscored by the growing cost of road construction. Our greatest challenge remains dedicating adequate resources to our many and varied transportation needs.

The budget presently sets aside $339 million in general fund support for transportation but the appropriation has not yet been authorized for specific transportation-related purposes. Governor Kaine's proposed budget identifies uses for this funding that will strengthen Virginia's economy, as well as help address congestion. Moreover, given the expected availability of increased general fund revenue expected this biennium, the Governor is proposing approximately $161 million in general fund support to bolster the existing $339 million in funding to nearly a half a billion dollars.

This funding will be used for the following transportation efforts: $305 million to continue construction on several key road projects which will help fight congestion, promote commerce, and enhance road safety; $105 million to continue efforts on several significant rail projects that will help move more freight by rail, reducing the impact of tractor trailer trucks on Virginia's highways; $60 million to provide support for public transit; $20 million to explore and implement innovative technological approaches to reducing traffic congestion; and $10 million to begin the preliminary engineering of the Craney Island port expansion project.

Through the addition of this one-time funding, the Governor's action will ensure support for key transportation projects that will help both Virginia's economy and the day-to-day travels of Virginia's citizens.

Meeting critical health care needs

The Governor's proposed budget recommendations contain substantial resources for various initiatives that will improve the healthcare system in the Commonwealth. The proposed budget amendments include funding for a variety of initiatives to increase access to healthcare for the uninsured, attract more people to the healthcare workforce, promote prevention and good health for Virginians, improve the quality of healthcare, and reform long-term care. A special emphasis has been placed on children in the context of healthcare and other services for children. The promotion of electronic medical and health records is broadened. In addition, the Governor's budget continues to fund the transformation of the state mental health and mental retardation services system to one that serves people in the community rather than in a state facility.

This budget takes steps to continue to expand coverage to the uninsured and to ensure that those covered continue to have adequate access to healthcare services, including small group employers. The largest initiative provides an additional seven percent increase in Medicaid/FAMIS rates for pediatric services to ensure that children have access to those services anywhere in the Commonwealth. The most significant expansion of healthcare coverage is the expansion of prenatal care for pregnant women with income of up to 200 percent of the federal poverty level. In total, the proposed budget includes nearly $19 million to improve access to healthcare.

Prevention efforts are reflected in over $12 million in proposed budget amendments. Funding to stockpile anti-viral medications to treat a flu pandemic and to provide vaccinations to prevent cancer are two significant investments. Improving the provider network for the Medicaid high-risk pregnancy program and expanding the state disease management program to include Chronic Obstructive Pulmonary Disease are additional investments.

Quality healthcare is another area the proposed budget addresses. One of the more significant changes will allow adoption assistance recipients to be covered under Medicaid managed care, which will improve the quality of their care and also improve the cost effectiveness of that care. Furthermore, a nursing facility pay-for-performance plan will be developed to encourage continuous improvement in the care provided to nursing facility residents.

The "No Wrong Door" initiative will ultimately result in allowing a person at any entry point in the state or local system to initiate any of the services needed without having to travel to or contact multiple agencies for different services. The proposed budget provides additional funds to continue to move toward a consistent statewide system. Also included are funds to increase the assisted living facility rate to $1,048 a month. These initiatives total over $4 million and are a significant step in the continuing efforts to assure that the Commonwealth's system of long-term care will meet the citizen's needs.

Strategies to ensure interoperable electronic medical records are supported in four agencies: Virginia Department of Health, Department of Mental Health, Mental Retardation and Substance Abuse Services, Department of Corrections, and Department of Veterans Services.

Over $1 million in resources are added to existing agency's funds for a total of nearly $6 million in newly authorized funds.

The transformation of the mental health and mental retardation services system was initiated last year in the biennial budget. To help further facilitate the transition of people from state facilities into the community, funding is included to increase hospital inpatient psychiatric rates to ensure that private beds are available, thus preventing new state admissions. In addition, a federal "Money Follows the Person" grant will help transition another 290 people a year out of various long-term care facilities into the community with the benefit of enhanced federal funding. Another community investment further reduces the waiting list for the mental retardation waiver by increasing the number of slots by 170. In total, over $14 million is invested in the continuing efforts to serve more people in the community.

Meeting the state's commitment to quality K-12 education

The existing Appropriation Act provides over $1.5 billion in additional state funding for the Commonwealth's elementary and secondary public schools. The Governor's amendments to the budget continue to fund the Standards of Quality, update lottery proceeds for public education, distribute additional sales tax revenues, and make other technical adjustments to the state's commitment to K-12 education. A total of $63.9 million is proposed for the state share of funding a three percent salary increase for teachers and other public school employees.

The Governor's budget also addresses several critical areas of need in K-12 education. It enhances the state's remedial services by targeting $4.1 million to expand the eligibility for the Early Reading Intervention program to include all eligible first and second grade students and $3.9 million to expand the Standards of Learning Algebra Readiness program to include students in sixth grade.

To ensure that all children arrive at kindergarten school-ready, the Governor's amendments provide an additional $4.6 million for the Virginia Preschool Initiative to establish Start Strong pre-kindergarten pilot programs to serve an estimated 1,250 children. These pilots will help to devise a comprehensive approach for the delivery of pre-kindergarten education services through public and private settings and will build on the existing preschool network by improving quality and access to services.

An update of student enrollment (Average Daily Membership), based on September 30, 2006, fall membership, showing a reduction of 5,742 students for 2007 and 8,448 for 2008, resulted in a reduction of $56.2 million for the biennium. The budget also includes technical adjustments that allow greater local flexibility in the use of the interest rate subsidy program for school construction and expand the number of projects that can utilize this program.

Continuing the progress in higher education

For Virginia to remain economically competitive, it needs a well-educated workforce. This requires a strong and vital higher education system that is accessible to all Virginians seeking advanced educational opportunities.

The Governor's proposed budget includes over $15 million in funding to continue addressing the state's commitment to quality in higher education. This funding supports the core operating requirements of higher education institutions to allow the continued delivery of quality instructional and student service activities.

To help ensure broad access to affordable higher education, additional need-based financial aid funding of over $13.7 million is also included in the budget. This funding will assist in offsetting the recent tuition increases at public colleges and universities.

With the growth and aging of Virginia's population, the demand for nurses is exceeding the current supply. Although many individuals would like to pursue nursing as a career, the limited amount of space in nursing programs restrains the number of new nurses graduated each year. One of the difficulties in maintaining and expanding existing nursing programs in higher education is finding and retaining sufficient faculty. Hospitals and other private sector health care businesses can offer higher salaries than higher education institutions. To help address this problem, the Governor's proposed budget amendments provide a 10 percent pay increase for nursing faculty.

Finally, funding in excess of $176 million is provided in the budget to allow the state's public colleges and universities to plan for necessary academic facilities, address life and safety issues, and cover increasing costs associated with constructing and upgrading academic buildings on their campuses. To keep Virginia's higher education institutions competitive, these planning, renovation and construction efforts are necessary to provide safe, modern and technologically advanced space for teaching classes and conducting research.

Safeguarding our environment and natural resources

The Governor has an ambitious goal for land conservation with a target to preserve an additional 400,000 acres in Virginia by the end of the decade. The 400,000-acre goal is dependent on achieving both the Chesapeake 2000 goal of protecting 20 percent of the lands in the Chesapeake Bay watershed by 2010 and on advancing important land preservation in Virginia's southern rivers watersheds.

The proposed budget includes $20 million in funding over the biennium for a variety of strategies for land conservation. The proposals include $13.7 million for the Virginia Land Conservation Foundation to make matching grants for natural area protection, open spaces, parks, farmlands, forest preservation, and historic area preservation. Agricultural land accounts for more than 30 percent of the land base in Virginia. To help preserve working farms and prime agricultural land, $5 million is proposed as matching funds to local governments for land preservation. In addition, to help the Virginia Outdoors Foundation to continue to be the leading holder of conservation easements in the Commonwealth, the budget provides an additional $950,000 for support. Finally, approximately $450,000 will help ensure the grants and easements are efficiently and effectively received and maintained by Natural Resources agencies.

The single greatest challenge faced by Virginia's water quality management program is improving the water quality of the Chesapeake Bay and rivers statewide. Prompt installation of nutrient removal technologies at numerous wastewater treatment facilities to improve the water quality in the Chesapeake Bay presents a major challenge. The state share of the estimated capital costs for installation of these technologies at the 92 significant wastewater treatment plants within the Chesapeake Bay watershed is estimated to total between $750 million and $1 billion. To provide a meaningful source of funding that will be available as needed to address these essential wastewater treatment plant upgrades, the Governor will introduce a separate bill that will authorize the issuance of up to $250 million in bonds for these improvements.

In addition, the budget amendments include the $1.6 million mandatory deposit to the Department of Environmental Quality's Virginia Water Quality Improvement Fund. The fund provides grants to municipal wastewater treatment plants to fund a portion of the cost of designing and installing nutrient removal technology. This is in addition to the $12.8 million already appropriated.

The budget also includes $7.5 million for the Department of Conservation and Recreation's Virginia Water Quality Improvement Fund. Of this amount, $3.8 million is the remainder of the deposit required under the statute. This funding will help improve water quality through a variety of nonpoint source programs, including purchasing conservation easements, implementing nutrient management plans, providing instruction on nutrient management techniques, funding cost share practices, and reimbursing localities for water quality-related tax incentives.

Finally, a budget amendment provides the Cities of Richmond and Lynchburg with $9.1 million in additional general fund appropriations over the biennium for their combined sewer overflow projects that will reduce the impact of raw sewage overflows and substantially improve water quality in the James River.

Protecting the citizens of Virginia

Governor Kaine's proposed public safety budget will better prepare Virginia for possible future catastrophic events, while strengthening public safety in the Commonwealth for everyday life.

The Governor is proposing over $7.6 million to support a variety of activities in six state agencies, across five secretarial areas, to strengthen Virginia's capabilities in preparing for possible disasters, as well as being better able to handle disasters when they occur. The experience of the Gulf States devastated by Hurricane Katrina gave all states a stark lesson on the need to prepare for and manage disastrous events. This funding will add manpower to the state's emergency response agencies; increase statewide emergency planning capabilities; bolster efforts to effectively communicate with the public prior to, during, and after a potential event; enhance the state's capability to handle families displaced from their homes; and ensure continued governmental operations during and following a disaster.

On the law enforcement front, 24 additional law enforcement deputy sheriffs are authorized to reflect Virginia's growing population, and additional funding is provided to maintain the capabilities of Virginia's forensic science laboratories. Funding is also provided to support the opening of new jail facilities and the staffing of juvenile correctional space. To recognize the difficulty in attracting and retaining individuals due to the danger of law enforcement and correctional officer positions, additional funding is provided for correctional officer pay increases and to bolster the retirement plans for state troopers and sheriffs' deputies. The Governor is also submitting separate bond legislation to cover the costs of constructing a new prison. Based on the most recent inmate population forecasts, Virginia will require additional correctional capacity in the next biennium to house all of its inmates.

Finally, the Governor's proposed budget provides additional funding for a variety of programs designed to assist in the successful reintegration of former inmates into society, helping them to become productive members of society. This will enhance public safety, while helping to reduce future corrections costs.

Addressing the demands on the judicial system

Virginia continually looks for ways to enhance the effectiveness of its programs, consistent with its ranking as one of the best managed states in the country. In an effort to strengthen the effectiveness of the state's indigent defense system, Governor Kaine placed language in the present budget to encourage a dialogue among the various branches of government to examine the level of compensation paid to attorneys appointed to represent indigent defendants in criminal cases.

Based on this dialogue, the Governor's proposed budget provides language and related funding to allow the Executive Secretary of the Supreme Court to approve requests to waive the existing payment caps for court-appointed attorneys on cases requiring additional effort. In addition, funding is provided for additional staff and pay increases for attorneys within the Indigent Defense Commission to strengthen the capabilities of public defender offices. Language to continue studying this issue is also included in the budget.

To ensure non-English speaking individuals and criminal defendants are treated effectively and fairly in the judicial system, the Governor's proposed budget also provides funding to support additional interpreters in the court system. Difficulty in dealing with non-English speakers has caused significant delays in some courts. Funding is also provided to evaluate the state's drug courts program to determine the effectiveness of drug courts and identify if improvements are needed.

Strengthening the Commonwealth's economy

The proposed budget ensures that Virginia maintains positive business and tourism climate. The budget includes an additional $5.0 million for the Governor's Development Opportunity Fund. The deal-closing fund, as it is often called, provides either grants or loans to localities to enable the Commonwealth to compete with other state and countries for major new investment and jobs. The Governor's budget also includes $200,000 to assess potential emerging markets, $8.0 million for the enterprise zone grant program and $4.0 million for the workforce services jobs investment program to encourage job creation and private investment. Additionally, $1.6 million is being provided to complete predevelopment activities that are necessary to plan for future installation of fiber optic cable on the Eastern Shore, and another $1.0 million is provided for the Herbert H. Bateman Advanced Shipbuilding and Carrier Integration Center for research and development and workforce training projects of value to Virginia's shipbuilding and ship repair sector. The proposed budget also includes $250,000 for state welcome centers and Capitol Bell Tower operations to provide travel information and reservation services to visitors.

In order to keep current businesses safe for workers, the budget includes $586,600 to support the occupational health and safety program. Much of the business growth in Virginia is in professions and occupations that are licensed and regulated to protect consumers. In order to keep pace with the business sector growth, almost $1.5 million in license revenues will be provided to handle the substantial increases in the volume of complaints against those regulated and unlicensed practitioners.

Finally, an additional $2.5 million is included to expand the capacity of indoor plumbing rehabilitation programs to reduce the number of Virginians living in substandard housing.

Meeting the Agricultural and Forestry needs of the Commonwealth

In the area of agriculture and forestry, the Governor's budget recommendations address the increasing needs of Virginia's grain and soybean industries and provide for expanding animal care services within the Department of Agriculture and Consumer Services. Approximately $111,000 will be used to expand inspections at the Port of Virginia as customers for Virginia grain and soybeans, both foreign and domestic, are increasingly purchasing these commodities in smaller and more customized shipments under contracts with tighter timeliness and quality specifications. Amendments also provide almost $70,000 for a staff veterinarian position to coordinate evacuation and transportation of pets and service animals during natural disasters and emergencies, as required by recent federal legislation, and to supervise the pound and shelter inspection program.

Preservation of forest lands is also an important goal in the Governor's budget recommendations. Funding is provided to the Department of Forestry ($1.2 million grant from the Virginia Land Conservation Foundation) for the purchase of the Bromley Mountain tract in Washington County. Brumley Mountain is a key, intact forest on the crest of Clinch Mountain. It includes a series of unusual rock crevices called the Great Channels of Virginia, and lies between two parcels of land already owned by the Commonwealth. This purchase will help the Commonwealth meet its goal of increasing the acres of preserved land.

In addition, $5 million of new funding is included in the Natural Resources Secretariat for local government purchase and development rights programs to preserve farmlands and working forests.

Retaining and attracting a competent workforce

The Governor's budget retains funding to increase the salaries of Virginia's state supported public employees. State employees will receive a three percent increase effective November 25, 2007. State supported local employees, including constitutional officers, local social services employees, local election board employees, local health employees, local juvenile justice workers, Community Services Board employees and others will receive a three percent salary increase effective December 1, 2007. This action is necessary to allow the Commonwealth to attract and retain an educated, dedicated, and motivated workforce. Salary increases for faculty are included in the budgets of higher education institutions and public school teacher salary increases are included in Direct Aid to Public Education.

The introduced budget also provides $9.8 million in funding for the general fund share of employee health insurance premium increases for state employees. This funding addresses increases in utilization and costs, and provides enhanced wellness coverage for state employees and their dependents. In addition, the Governor's budget provides $10 million in funding to begin the process of bringing funding for state employee benefits into compliance with new government accounting standards for post-employment benefits. Specifically, the budget begins a five-year phase-in of the increased annual contributions required for the state employee health insurance program and the Virginia Sickness and Disability program and fully funds the obligation for the state employee group life and retiree health credit programs.

In addition to public employee compensation and benefits, the Governor's proposed amendments include $18 million to boost economic development in the Commonwealth through increasing funding for the Governor's Development Opportunity Fund, creating incentives to attract research facilities to Virginia, and providing funding for the Southwest Virginia Technology Development Center.

Maintaining long-term stability: The Revenue Stabilization Fund

The Governor's budget amendments include additional deposits to the Revenue Stabilization Fund, more commonly called the "Rainy Day Fund," based on FY 2006 revenue collections. The deposits include an additional, or supplemental, deposit in FY 2007 ($106.7 million) and a mandatory deposit in FY 2008 (an additional $46.1 million for a total deposit of $184.3 million) in FY 2008. These deposits will ensure that the fund remains at its Constitutional maximum through the biennium. (The fund reached its Constitutional maximum for the first time in FY 2006). Because these deposits will cause the fund to reach its Constitutional maximum in FY 2007 and FY 2008, the excess deposits will be transferred back to the general fund (estimated at $36.9 million in FY 2007 and $120.4 million in FY 2008).

Improving the State's technology

After initiating a major restructuring of the Commonwealth's information technology (IT) operations in the prior biennium, this past biennium has seen the Technology Secretariat complete the consolidation phase of the restructuring plan. The consolidation phase involved the transfer of over 700 technology positions, along with associated information technology functions, from Executive Department agencies to the Virginia Information Technologies Agency (VITA). Now that these transfers have been completed, the focus of the secretariat during this biennium has been on the transformation phase of restructuring, with a primary purpose to integrate and further consolidate VITA's IT infrastructure.

To further this goal, the Commonwealth entered into a private-public venture agreement has been made with Northrop Grumman Corporation to run VITA's front-line computer operations. This 10 year agreement encompasses a wide range of IT activities from building secure data centers, to platform and operations consolidation, to staff transition, to ongoing operations and is expected to achieve VITA's objectives of cost reduction; improved service; manageable operation; and a scalable, responsive infrastructure. Proposed budget recommendations would further move the Commonwealth's IT systems toward a successful transformation.

The Governor recommends an additional $4 million for technology agencies. The bulk of these funds will be used to stabilize VITA's general fund operating budget. Currently, VITA's operating budget is set to be drawn from VITA-initiated operational efficiency savings achieved in agencies, but with the Northrop Grumman agreement, VITA will no longer have control of, nor be able to, track the savings. Funding is also provided to assist state agencies with new charges for geospatial information services consistent with language approved by the 2006 Special Session I. Revenues collected from these charges will be used for updating aerial photography for the Virginia Base Mapping Program. Local governments and state agencies use this program for wireless E-911, homeland security, tax assessments, transportation planning, and economic development.

Maintaining and enhancing the Commonwealth's infrastructure

The Governor's proposed budget amendments utilize a significant share of the anticipated increase in revenues to address the one-time, immediate capital needs of the state. The budget includes $226.5 million from the general fund for capital projects and $69.6 million from nongeneral fund sources to construct, renovate, improve, and maintain state-owned buildings.

The Governor has not requested additional bond authorizations requiring tax-supported debt of the Commonwealth in the budget. Funding for a new prison however, is being requested in separate legislation. Higher education institutions have been authorized the use of 9(c) and 9(d) debt totaling $212.1 million to support their critical capital projects.

The Governor's funding priority for capital outlay was to provide equipment for projects previously approved and to address unanticipated increases in costs for existing projects.

Forty one capital projects already authorized will require supplemental funding in order to proceed to construction. Some of the cost overruns are due to price increases in raw materials, such as steel and plywood. Others are due to dated cost estimates which were the basis for the original appropriation. The proposed budget includes $135.3 million from the general fund and $76.4 million from nongeneral fund sources to address increased costs.

The budget also provides general fund support for 16 capital projects that have neared completion and now require additional funds to acquire needed equipment in order to be occupied. A total of $44.2 million from the general fund and $1.0 million from nongeneral fund sources is provided to acquire the needed equipment.

The remaining amounts support a limited number of new projects, which generally consist of emergency projects, acquisitions, or planning for future construction projects. The proposed budget provides $47.0 from the general fund and $204.3 million from nongeneral fund sources for this purpose.