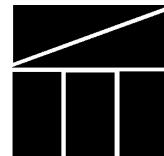


Overview of the 2002-04 Biennium Budget and its Impact on Higher Education

Presentation to FOCUS

May 2, 2002

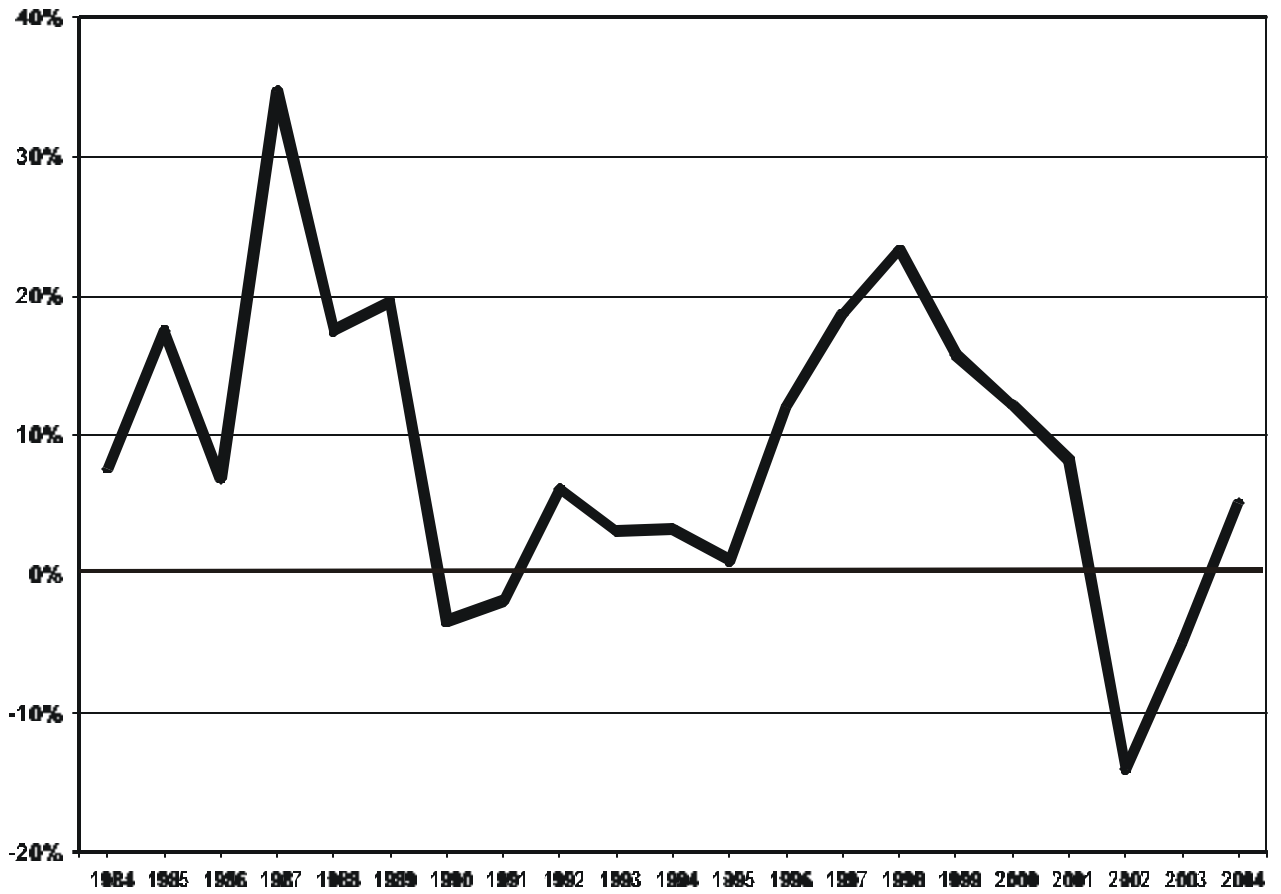


Richard D. Brown
Director
Virginia Department
of
Planning and
Budget

Summary of General Fund Budget Shortfall: Fiscal Year 2002 and 2002-04 Biennium

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Base budget	\$ 12,487.1	\$ 12,102.0	\$ 12,071.7
New spending	254.8	942.9	1,241.3
<i>Total Spending</i>	\$ 12,741.9	\$ 13,044.9	\$ 13,313.0
Difference (Shortfall):	\$ (1,625.6)	\$ (1,288.0)	\$ (1,008.5)

Percent Growth in Nonwithholding Revenue



New spending for fiscal year 2002

New spending recommendations:

	<u>\$ in millions</u>
Medicaid Increases	\$92.0
CSA at-risk youth	58.2
Additional payment to Revenue Stabilization Fund	24.0
Local jail per diem payments	19.5
Lottery proceeds to public education	15.7
Criminal Defense Fund	12.0
Mental retardation waiver (Medicaid)	10.7
Natural disasters and forest fires	9.2
Operating expenses for local detention homes	4.6
DMHM RSA community and facility pharmacy funding	2.1
Maintenance & operating costs for Norfolk Public Health Building	1.6
Department of Health information network	1.4
Department of Taxation relocation costs	1.2
All other	2.6
Total new spending	<u>\$ 254.8</u>

New spending for 2002-04 biennium: Public employees compensation and benefits

Fiscal year 2004 employee compensation reserve \$101.4

- Provides funds for salary increases for state employees, state supported local employees, faculty at public institutions of higher education and public school employees, including instructional and support personnel, funded through the Standards of Quality.
- The increase would be effective December 1, 2003.
- The actual percentage increase will be determined at the next session of the General Assembly.

Increase in the cost of state employee health insurance \$88.3

- Covers the general fund share of the increase in the employer health insurance premiums paid on behalf of the Commonwealth's employees.
- Employee premiums will increase by approximately 10 percent, less than the national average.
- Some increases in co-payments for doctor and hospital visits as well as prescriptions.

Fiscal year 2003 state employee bonus \$63.4

- Provides funds for a 2.5 percent bonus for state employees and faculty at public institutions of higher education.
- Employees will elect to receive one of three benefits; 1) a 2.5% bonus, 2) ten days additional paid leave, 3) a 1.25% bonus and five additional days of paid leave.
- Any bonus payments elected would be part of the employee's August 30, 2002 paycheck.
- Any additional leave elected can be used between July 1, 2002 and June 30, 2003.
- Language gives higher education institutions some flexibility regarding faculty bonus payments.

New spending for the 2002-04 biennium: Public Education

Fully fund the Standards of Quality (SOQ) \$357.2

- Provides \$153.8 million in FY 2003 and \$195.6 million in FY 2004 to fully fund the Standards of Quality for public education.
- Provides an additional \$3.9 million in each year of the biennium to correct Halifax's composite index.

Adopt JLARC Standards of Quality recommendations \$133.1

- Provides \$4.1 million in FY 2003 and \$54.2 million in FY 2004 to support the state share of the prevailing number of administrative positions in local school divisions (5.8 percent funded in FY 2003 and 72 percent in FY 2004).
- Adds \$24.8 million in FY 2003 and \$50.0 million in FY 2004 to end the deduction of locally generated revenue from SOQ formula calculation (50 percent funded in FY 2003 and 100 percent in FY 2004).

Complete Governor's Technology Initiative for K-12 \$119.0

- Completes web-based technology initiative with an additional \$116 million in bond proceeds financed through Literary Fund.
- Provides \$3.0 million in FY 2004 to establish web-based testing of the Standards of Learning in all high schools.

Increase Lottery proceeds distribution to school divisions \$15.3

- Provides \$7.6 million in FY 2003 and \$7.7 million in FY 2004 to support the local share of the Lottery proceeds distribution.

New spending for 2002-04 biennium: Higher Education

Enhance programs at Norfolk State and Virginia State Universities **\$17.1**

- Norfolk State University will receive \$7.5 million for academic enhancement and \$1.0 million for deferred maintenance. Virginia State University will receive \$5.0 million for academic enhancement and \$3.6 million for deferred maintenance.

Increase student financial assistance **\$10.2**

- Provides additional funds to increase need-based student financial assistance.
- The Commonwealth currently provides \$61.3 million in general fund support for need-based student financial assistance at Virginia's public colleges and universities.

Increase support for operation and maintenance of new facilities **\$8.9**

- Provides additional funds to support the operation and maintenance of 25 new academic buildings that have recently opened or will open during the 2002-2004 biennium.

Provide state match for GEAR-UP program **\$2.2**

- Provides additional funds to fulfill a portion of the state match commitment for the federal Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) grant.
- This grant is designed to better prepare middle and high school students through mentoring programs, scholarships, new academic preparation programs, and awareness programs for students and parents.

Provide additional match for cooperative extension activities at Virginia State University **\$0.6**

- Provides additional funds to increase state match of federal funds under the Federal Cooperative Extension and Agricultural Research Program (the 1890 land grant program). This funding will bring Virginia to an 84 percent matching level by FY04.

New spending for 2002-04 biennium: Health & Human Resources

Medicaid utilization and inflation	\$609.1
<ul style="list-style-type: none">▪ Funds cost and utilization increases and provides \$23.4 million for reclassification of pharmacy rebates.	
Comprehensive Services Act (CSA) growth	\$137.7
<ul style="list-style-type: none">▪ Funds mandated special education and foster care services for CSA youth.	
Mandated foster care maintenance and adoption subsidy payments	\$38.0
<ul style="list-style-type: none">▪ Includes a mandated 2.1% increase in foster care rates, effective July 1, 2003.	
Eligible community services with the Temporary Assistance for Needy Families (TANF) grant	\$31.8
<ul style="list-style-type: none">▪ Provides TANF to support CSA, Virginia Department of Health, Healthy Families, Community Action Agencies, and other local organizations.	
Medicaid match for mental health and mental retardation facilities	\$27.4
<ul style="list-style-type: none">▪ General fund Medicaid match for treatment of facility clients.	
Indigent health care at academic health centers	\$24.3
<ul style="list-style-type: none">▪ Addresses unreimbursed indigent health care services.▪ Approximately \$21.5 million is provided to the VCU Health Systems Authority and \$2.8 million is provided to UVA Medical Center.	
Mental Retardation Waiver slots	\$23.8
<ul style="list-style-type: none">▪ \$18.0 million for currently approved slots and \$5.8 million for 150 additional slots.	

New spending for 2002-04 biennium: Public Safety

Replace out-of-state inmate funds	\$49.9
<ul style="list-style-type: none">Provides general fund dollars to account for the growing state inmate population and decreasing out-of-state inmate revenues.	
Per diem payments to local jails	\$36.0
<ul style="list-style-type: none">Increases per diem payments to cover anticipated increases in the number of inmates in local jails.	
Share operational costs of new local detention centers	\$18.9
<ul style="list-style-type: none">Funds the state's share of operating costs for new local detention centers.	
Increase funding for criminal indigent defense	\$15.3
<ul style="list-style-type: none">Provides additional funds to pay the court costs of low-income persons, including the services of court appointed attorneys for the indigent defendants in criminal cases.	
Increase local law enforcement personnel	\$7.4
<ul style="list-style-type: none">Ensures one law-enforcement deputy per 1,500 population.	
Anti-terrorism response initiatives	\$5.8
<ul style="list-style-type: none">Provides direct funding to programs necessary to adequately respond to terrorist events or emergencies arising from other-than-natural disasters.	
Continue development of the Integrated Criminal Justice Information System (ICJIS)	\$1.6
<ul style="list-style-type: none">Provides state matching funds for \$6.4 million in federal grants for ICJIS.	
Maintenance and operation of Norfolk Public Health Building	\$1.6
<ul style="list-style-type: none">Provides operating and maintenance costs for the new Norfolk laboratory and office space of the Division of Forensic Science and the Department of Health.	

New spending: Transportation

General fund support for Priority Transportation Fund **\$106.6**

- The budget includes \$106.5 million in general fund support for the Priority Transportation Fund in FY03.
- This funding is roughly equal to one-third of the insurance license tax revenues deposited to the general fund. This action is consistent with statutory requirements.

Provide general fund support in highway construction districts to subsidize FRAN debt service **\$40.0**

- The General Assembly authorized the issuance of \$317 million in additional Federal Highway Reimbursement Anticipation Notes (FRANs) in FY03 to cover the transfer to the general fund of the half-cent sales tax dedicated to transportation.
- The General Assembly also provided \$7.1 million in FY03 and \$32.9 million in FY04 in additional general fund support for transportation. These funds could be used to help subsidize the debt service payments associated with the issuance of these additional FRANs.

New spending for 2002-04 biennium: Finance

Provide debt service for bond issues \$35.1

- Adds \$14.4 million for debt service payments on General Obligation bonds.
- Adds \$7.9 million for debt service payments on bonds for the purchase of additional instructional and information technology equipment at the institutions of higher education.
- Adds \$9.0 million for debt service payments on bonds issued by the Virginia College Building Authority for new projects at institutions of higher education.
- Adds \$3.8 million for debt service payments on bonds issued by the Virginia Public Building Authority for new projects.

New spending for 2002-04 biennium:

Nonstate Agencies

Provide general fund support for nonstate entities **\$6.3**

Capital Outlay (Pay-As-You-Go)

Statewide infrastructure repair projects & improvements **\$50.8**

- \$49.8 million for maintenance reserve consisting of low-cost repairs aimed at maintaining or extending the useful life of an existing building such as installation of new roofing, electrical repairs, the repair of parking lots, and the replacement of heating systems.
- \$0.9 million to address unanticipated emergency repairs and improvements at state agencies and institutions of higher education.

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 Balancing Actions:			
Revenue Stabilization Fund	467.0	-	-

Revenue Stabilization Fund

	<u>\$ in millions</u>
Balance as of 6/30/2001	\$ 715.6
Interest through 9/30/2001	10.5
Current balance as of 9/30/2001	\$ 726.1
Projected interest (12/1/2001 - 3/31/2002)	\$ 20.9
FY 2002 scheduled deposit	187.1
Projected balance 4th quarter FY 2002	\$ 934.1
Withdrawal of one-half of fund balance	\$ 467.0

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Additional revenues	200.4	57.3	140.0

Balancing Actions: Additional Revenues

	\$ in millions		
	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Sales tax acceleration, June 02	\$ 118.4	\$ -	\$ -
Transportation share of accelerated sales tax	19.4	-	-
Corporate registration fees	-	15.5	15.5
Recordation fee (\$10)	3.4	20.5	20.5
Vehicle registration fee (+ \$2)	2.5	15.0	15.0
Court fee increase	4.2	25.2	25.5
Defer NGF interest earnings	34.2	(34.2)	-
EFT on date of bank transfer notice	18.0	-	-
VIPNET fee increase	0.3	10.0	10.0
Eliminate withholding change (Chapter 501 2000 Acts of Assembly)	-	-	31.8
Guardian Ad litem fees	-	2.9	2.9
Tax credit for qualified equity and subordinated debt	-	1.0	2.0
Notary fees	-	0.4	0.4
NOx Emissions Trade	-	-	8.8
Internet service provider credit to refund	-	-	2.6
Miscellaneous legislation	-	1.0	5.0
Balance	<u><u>\$ 200.4</u></u>	<u><u>\$ 57.3</u></u>	<u><u>\$ 140.0</u></u>

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Additional revenues	200.4	57.3	140.0
Budget reductions	544.3	797.7	764.5

Balancing actions for fiscal year 2002: Budget reductions

	<u>\$ in millions</u>
VRS rate change (2000 and 2001 valuations)	\$ 118.4
Three percent across-the-board reductions (\$88.2 GF and \$3.5 NGF)	91.7
Capital outlay freeze (EO 74)	65.2
Productivity savings and EO 74 (01) reductions	50.9
Savings from VRS unclaimed accounts	50.5
Personal Property Tax Relief Program (Retain 70% reimbursement)	46.0
Defer 2nd June reimbursement to July (Constitutional Officers)	35.1
Capital outlay and other balances	23.3
SOQ incentive-base program update	22.8
HB 599 allocation revision (Reduced revenue forecast)	16.0
Family Access to Medical Insurance (FAMIS) update	12.4
All other	3.4
Uncommittee balance in Commonwealth Technology Fund	3.3
Group life insurance holiday	3.3
SABRE funds	1.0
Debt service revision	1.0
Total reductions	\$ 544.3

Balancing actions for 2002-2004 biennium: Budget reductions

Across-the-board agency budget reductions in the Executive and Legislative branches **\$203.9**

- Exempts key law enforcement officers and direct aid to public education.
- Includes legislative agencies.
- Agencies will present savings plans.
- Flexibility for agencies with 25 or fewer employees.

Achieve general fund savings from college and universities **\$290.8**

- Saves general fund dollars by requesting public colleges and universities to operate more efficiently.
- Budget does allow institutions to increase tuition, which could be used to offset some of these reductions. The budget does not set limits on tuition increases, but does mention the expectation of up to a 9 percent annual increase.

Roll several major incentive-based programs into the Standards of Quality (SOQ) **\$124.0**

- General Assembly rolled several incentive based programs into SOQ funding in order to pay for the JLARC Tier 1 recommendations. These programs include:
- Additional Teachers program: \$28.6 million in FY 2003 and \$28.5 million in FY 2004.
- Maintenance Supplement: \$9.6 million in FY 2003 and \$9.7 million in FY 2004.
- SOL Teacher Training: \$17.3 million in FY 2003 and \$17.4 million in FY 2004.
- SOL Teaching Materials: \$6.4 million in FY 2003 and \$6.5 million in FY 2004.

Balancing actions for 2002-2004 biennium: Budget reductions *(cont'd)*

Achieve savings attributed to dormant retirement accounts \$100.0

- These are accounts with no activity for at least two years.
- Total value of dormant accounts is over \$300 million.
- VRS currently counts as asset and liability.
- VRS will conduct a study to determine exactly how many cannot be located.
- Accounts not located will be removed from balance sheets.
- The resulting savings will be collected through a reduction in retirement contributions in fiscal year 2003 (\$45.8 million general fund, \$54.3 million nongeneral fund).

Apply actuarially calculated VRS rates in 2002-2004 \$97.3

- Uses the June 30, 2001 valuation to fund retirement contributions.
- Results in rate reductions for state employee retirement, public school teachers' retirement, the Judicial Retirement System, the State Police Retirement System, and the Virginia Law Officers Retirement System.

Reduction in the cost of employee fringe benefits \$77.4

- Savings of \$38 million in FY 2003 and \$39.4 million in FY 2004 resulting from changes in the contribution rates paid on behalf of state employees and public school teachers for various fringe benefits administered by the Virginia Retirement System.
- These benefits include the retiree healthcare credit, group life insurance coverage, and the Virginia sickness and disability program.

Balancing actions for 2002-2004 biennium: Budget reductions *(cont'd)*

Reduce funding for local school construction **\$55.0**

- Reduces funding for school construction activities by \$27.5 million in each year of the biennium.

Reduce funding for constitutional officers **\$53.8**

- The General Assembly applied a 5 percent across-the-board reduction to sheriffs in both fiscal years (\$33.7 million for the biennium).
- The General Assembly applied a 7 percent across-the-board reduction to all constitutional officers (except sheriffs) in FY 2003 and 8 percent in FY 2004 (\$20.1 million for the biennium).

Reduce funding for corrections **\$43.3**

- Provides for budget savings to be realized primarily through: closure of Staunton Correctional Center in July 2003; closure of a correctional field unit, a detention center, and a work center; streamlining of management structures in community corrections; and closure of one regional office and reducing size of remaining offices.

Redistribute and expand Medicaid cost containment actions **\$40.5**

- This action redistributes and expands cost containment actions to a broad range of Medicaid providers: hospitals, managed care organizations, pharmacies, and pharmaceuticals.
- DMAS is also expected to identify additional Medicaid cost containment strategies.

Balancing actions for 2002-2004 biennium: Budget reductions *(cont'd)*

Fund retiree health credit through SOQ model \$36.1

- Revises funding for the retiree health care credit by providing support based on the state share for SOQ related positions, creating a savings of \$18.3 million in FY 2003 and \$17.8 million in FY 2004.
- The monthly health insurance credit payable is \$2.50 for each full year of the retired member's creditable service, not to exceed a maximum monthly credit of \$75.
- This proposal runs the retiree health care credit through the SOQ formula, where the state would only cover its share of those teachers required by the SOQ. This approach is consistent with the manner in which the state provides funding for all of its Standards of Quality programs.
- It is important to note that the state has adopted new retirement contribution rates for fiscal years 2003 and 2004, which will produce significant savings both at the state and local level. This savings should help to mitigate the impact of the additional cost of the retiree health credit.

Discontinue Lottery hold harmless provision \$29.7

- Eliminates funding of \$14.84 million in each year of the biennium for the Lottery hold harmless.
- The 1999 General Assembly added this provision to hold the funding to certain localities harmless by the change in the distribution of Lottery proceeds.
- This hold harmless provision does not follow the normal distribution of K-12 funding and is now outdated as the amount of Lottery proceeds available for distribution has increased.

Balancing actions for 2002-2004 biennium: Budget reductions *(cont'd)*

Reduce funding for programs targeting at-risk students **\$17.3**

- Reduces funding for various programs that target at-risk students, including At-Risk program, AVID, reading recovery, truancy, Virginia Guaranteed Assistance Program, Project Discovery, and dropout prevention, (\$8.4 million in FY 2003 and \$8.9 million in FY 2004).

Adjust appropriation for aid to localities program **\$16.8**

- Adjusts the appropriation for distribution of ABC profits based on new revenue projections from the Department of Alcoholic Beverage Control, which reflect adjustments to the amounts transferred to the general fund from the Alcoholic Beverage Control Fund for the expenses incurred for care, treatment, study, and rehabilitation of alcoholics by the Department of Mental Health, Mental Retardation and Substance Abuse Services.

Defer automatic inflation adjustment in Medicaid **\$16.3**

- An inflation factor would not be granted in FY 2003.
- The reimbursement ceiling for indirect costs would be reduced.
- No changes are made in the reimbursement for direct patient care.
- A companion amendment in Item 1.1 provides \$4.0 million (GF) to decrease the amount of this reduction.

Capture unspent funds in the Virginia Tobacco Settlement Foundation **\$15.5**

- Captures an unspent balance projected at the end of fiscal year 2003.

Balancing actions for 2002-2004 biennium: Budget reductions *(cont'd)*

Adjust HB 599 payments \$14.5

- This action adjusts the total for the HB 599 allocation for the revised revenue estimates. The allocation for FY03 is tied to projected growth in general fund revenues, with the FY04 allocation kept frozen at the FY03 level.

Reduce funding for the Regional Competitiveness Act \$14.0

- After this reduction, regional partnerships will compete to receive a portion of \$2 million a year in overall funding for new specified purposes related to workforce services.

Reduce Medicaid pharmaceutical costs below average wholesale price by increasing discounts \$12.8

- Current reimbursement to pharmacies is the average wholesale price (AWP) minus nine percent.
- Virginia's discount is below the Medicaid national average and those of surrounding states.
- This proposal would increase the discount rate to AWP minus 11 percent.

Reduce Governor's Development Opportunity Fund \$12.5

- The \$17.5 million remaining includes \$10.0 million in fiscal year 2003 and \$7.5 million in fiscal year 2004.

Balancing actions for 2002-2004 biennium: Budget reductions *(cont'd)*

Defer the expansion of Medicaid coverage for substance abuse services \$10.2

- Clients are being served through the Governor's Substance Abuse Reduction Effort (SABRE) and the Department of Mental Health, Mental Retardation and Substance Abuse Services (MHMRSAS).

Use more stringent medical oversight of Medicaid patients in specific disease categories \$10.1

- Add new disease categories, including but not limited to, smoking-related diagnoses, HIV/AIDS, arthritis, Alzheimer's, cystic fibrosis, and schizophrenia.
- No savings are expected for fiscal year 2003.

Reduce base budget for Commonwealth Technology Fund \$9.8

- The fund awarded \$9.7 million in 2002 for 11 projects at nine universities. Most of these are three-year projects, resulting in commitments of nearly \$9.0 and \$7.7 million in fiscal years 2003 and 2004.
- This action reduces the base budget for this program such that awarded projects will proceed as planned, but makes no funds available for new projects.

Reduce operations of Culpeper Juvenile Correctional Center \$9.1

- This action reduces, but does not eliminate, the operations at the Culpeper Juvenile Correctional Center.

Balancing actions for 2002-2004 biennium: Budget reductions *(cont'd)*

Reduce base budget for debt service **\$8.5**

- Reduces debt service as a result of adjustments from retiring some obligations, issuance of a small amount of new obligations, and technical changes in various bonds that are variable and change from year to year.

Close men's boot camp **\$4.2**

- Close underutilized men's boot camp and redirect probationers to detention centers that provide a similar program.

Reduce funding for Research and Public Service Centers **\$3.8**

- Targeted cuts at the variety of research and public service centers in the higher education institutions. These centers were intended to be self-supporting with nongeneral fund revenues.

Reduce state aid to local libraries **\$3.2**

- In the 2000-2002 budget, sufficient funds were provided to fully fund the state formula for aid to local libraries. This action reduces the budget for state aid to local libraries by roughly eight percent.

Reduce funding for Pre-release and Post-incarceration Services **\$2.6**

- The General Assembly removed all funding for the pre- and post-incarceration services (PAPIS) program (\$2.2 million GF each year) as a targeted cut.
- A Governor's amendment in the reconvened session restored \$1.75 million in FY03. However the program had a net reduction of \$2.6 million for the biennium.

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Balancing Actions:			
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Additional revenues	200.4	57.3	140.0
Budget reductions	544.3	797.7	764.5
Alternative funding strategies	547.1	463.5	117.4

Balancing Actions: Alternative Funding Strategies

	\$ in millions		
	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Intergovernmental transfers (Medicaid)	\$ 259.0	\$ -	\$ -
Use Literary Fund for teacher retirement	110.0	90.7	85.7
Use debt for existing capital outlay	88.7	3.7	-
Use FRANS for transportation	73.6	317.0	-
Use transportation funds for Ports and Public Transportation	15.8	-	-
Maximize federal funding for Medicaid claims	-	19.0	19.0
Use unobligated transportation funds for Rt. 58	-	13.1	-
Increase hazardous waste, solid waste and water permit fees	-	2.5	3.7
Use E-911 Fund for dispatch centers	-	3.5	3.5
Use Technology Trust Fund to support Circuit Court Clerks' Offices	-	5.0	-
Use debt for industrial site development	-	2.9	1.2
Use room and board money to operate diversion centers	-	1.5	1.0
Utilize medical co-payment balances for some DOC medical costs	-	1.5	-
Increase fees for drinking water test	-	1.0	1.0
Use Drug Assessment Fund balances	-	0.6	0.6
Increase fees for inspection of food establishments	-	0.7	0.6
Increase fees for inspection of well and on-site sewage systems	-	0.5	0.5
Use Wireless E-911 Fund for GIS	-	0.1	0.1
Use NGF for Competition Council	-	-	0.3
Increase fees for vital records	-	0.2	0.2
Balance	<u>\$ 547.1</u>	<u>\$ 463.5</u>	<u>\$ 117.4</u>

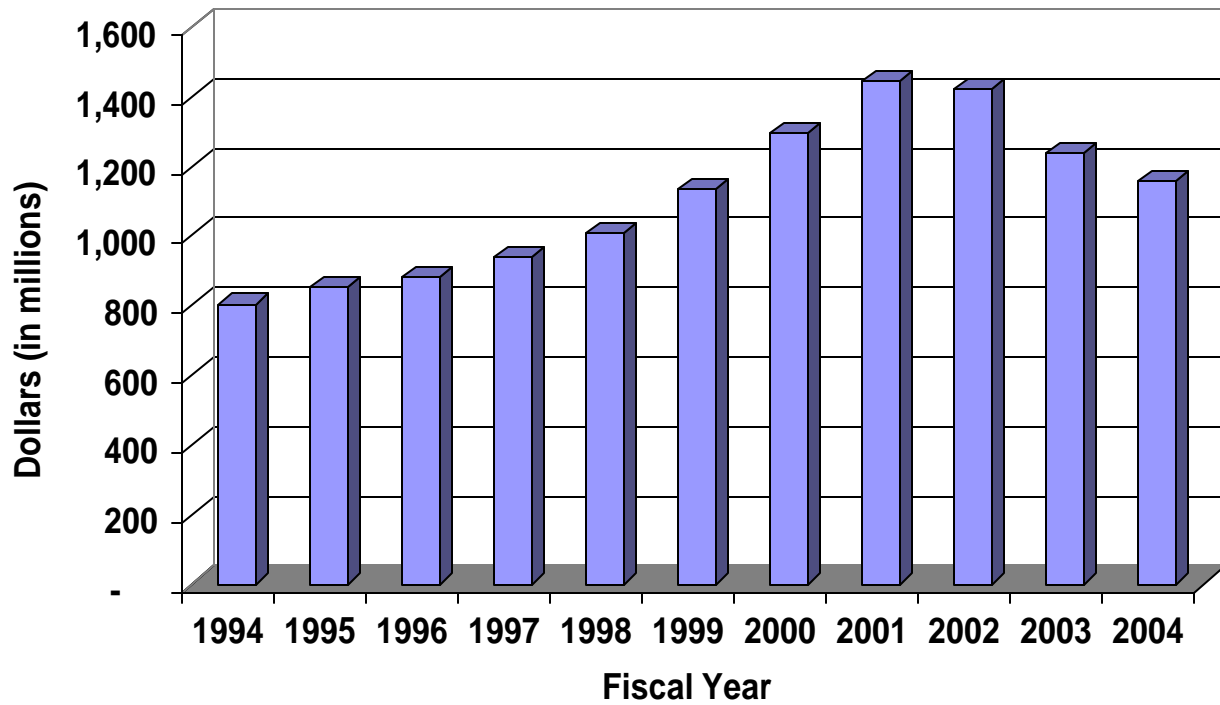
Summary of General Fund Budget Shortfall: Fiscal Year 2002 and 2002-04 Biennium

	\$ in millions		
	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Resources:			
Beginning Balance	\$ -	\$ 133.2	\$ 30.5
Tax revenue	10,656.6	11,180.9	11,836.9
Master Tobacco Settlement	59.3	59.1	52.0
Transfers	400.4	383.7	385.1
Total Resources	\$ 11,116.3	\$ 11,756.9	\$ 12,304.5
Spending:			
Base budget	\$ 12,487.1	\$ 12,102.0	\$ 12,071.7
New spending	254.8	942.9	1,241.3
Total Spending	\$ 12,741.9	\$ 13,044.9	\$ 13,313.0
Difference (Shortfall):	\$ (1,625.6)	\$ (1,288.0)	\$ (1,008.5)
Balancing Actions:			
Revenue Stabilization Fund	467.0	-	-
Additional revenues	200.4	57.3	140.0
Budget reductions	544.3	797.7	764.5
Alternative funding strategies	547.1	463.5	117.4
Total Balancing Actions	\$ 1,758.8	\$ 1,318.5	\$ 1,021.9
Balance	\$ 133.2	\$ 30.5	\$ 13.4

Funding Changes in the 2002-04 Biennial Budget

- Faculty and staff compensation
- Student financial aid
- Operation and maintenance
- Targeted funding increases
- Research and public service centers
- Budget reductions
- Tuition and Fee Policy
- Capital outlay

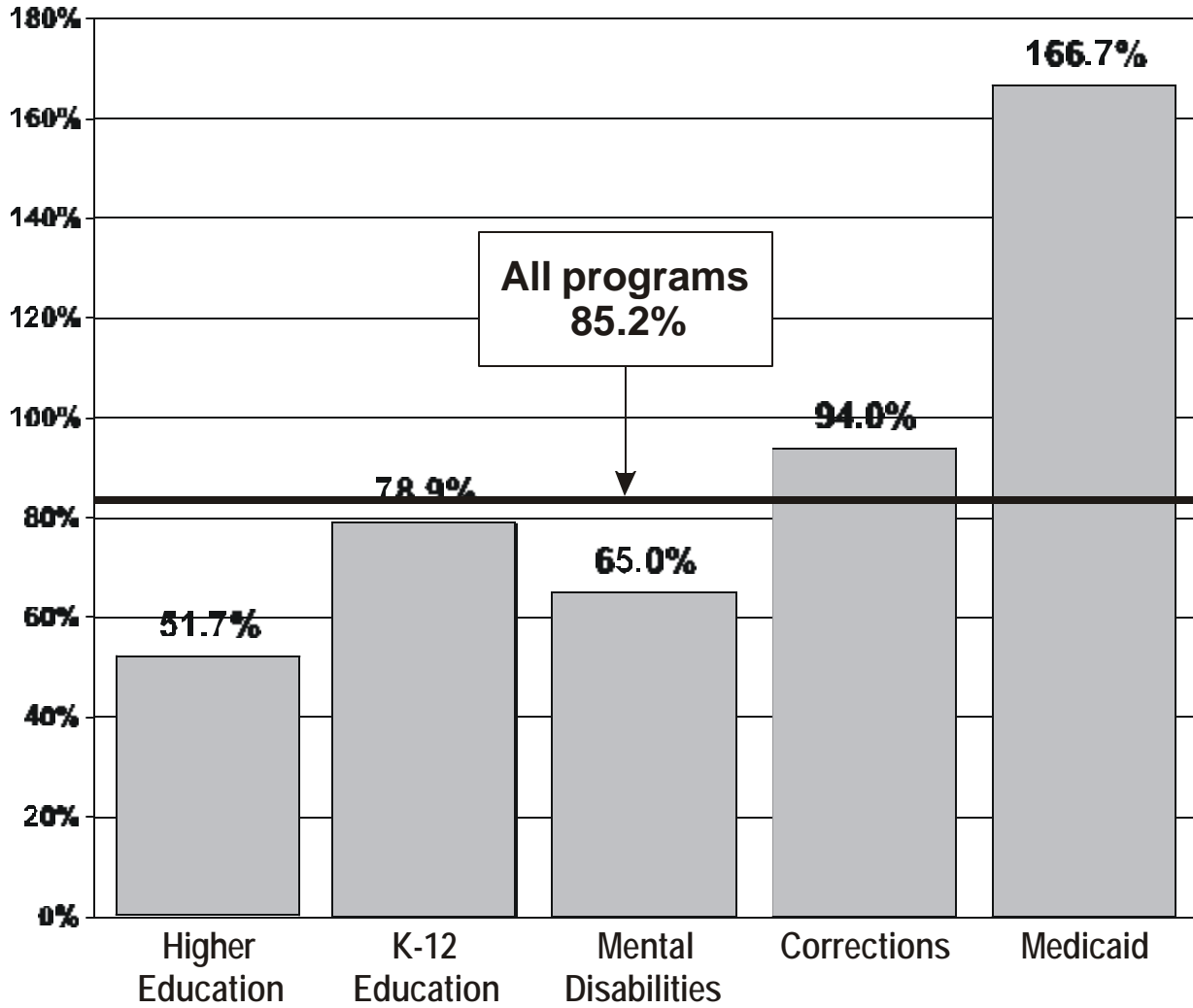
General Fund Support for Higher Education 1994 – 2004



Figures include HEETF debt service and general fund reductions for 2002-2004.

Major budget drivers: 1990 to 2000

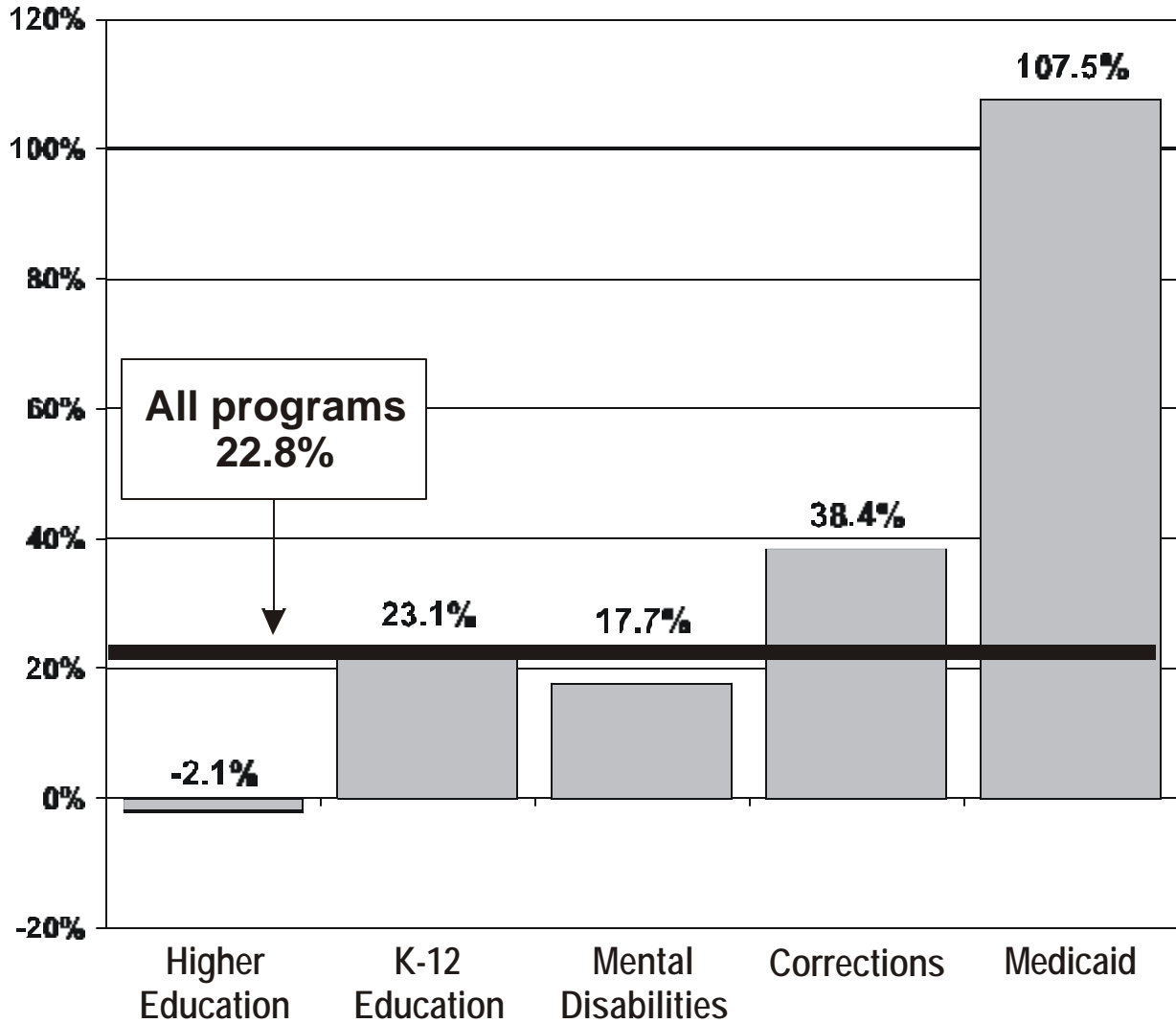
Percent increase in general fund budget, 1990 to 2000



Source: Department of Planning and Budget, May 2000. Data from appropriation acts. 1990 data from Chapter 880, 1990 Acts of Assembly. 2000 data from Chapter 1072, 2000 Acts of Assembly.

Major budget drivers: 1990 to 1995

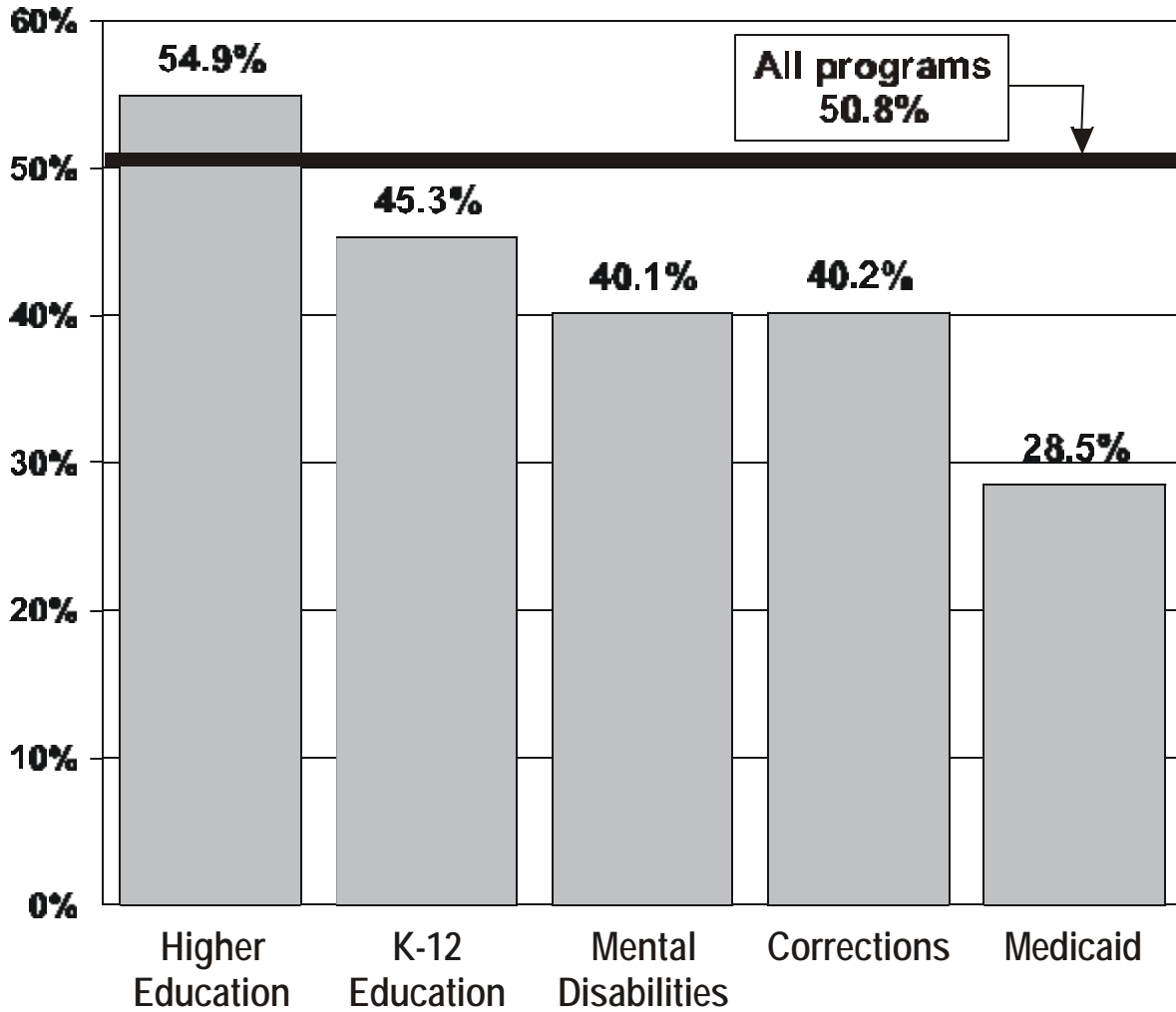
Percent increase in general fund budget, 1990 to 1995



Source: Department of Planning and Budget, March 2002. Data from appropriation acts: 1990 data from Chapter 880, 1990 Acts of Assembly, and 1995 data from Chapter 853, 1995 Acts of Assembly.

Major budget drivers: 1995 to 2000

Percent increase in general fund budget, 1995 to 2000



Source: Department of Planning and Budget, May 2000. Data from appropriation acts. 2000 data is from Chapter 1073, 2000 Acts of Assembly. 1995 data is from Chapter 853, 1995 Acts of Assembly.

Classified Staff Compensation

- In FY 2003, classified staff will receive:
 - A 2.5% bonus (in the 8/30/02 pay check), or
 - Two weeks paid compensatory time, or
 - A 1.25% bonus and one week comp time
- An additional 2.75% is included in the FY 2004 budget for permanent salary increases effective 12/2003, contingent upon revenue growth.

Faculty Compensation

Each institution will receive in FY 2003 an amount equal to 2.5% of the base compensation of:

- teaching and research, administrative, and part-time faculty and graduate teaching assistants

Institutions may use these funds for:

- A one-time bonus payment
- Other monetary or non-monetary incentives and awards for retention of T&R faculty

An additional 2.75% is included in the FY 2004 budget for permanent salary increases effective 12/2003, contingent upon revenue growth.

Student Financial Aid

- The institutions' biennial appropriations include \$8.2 million in increased financial assistance for Virginia resident undergraduate students.
- An additional \$2 million in student financial assistance will be distributed by DPB in FY 2003.

Operation and Maintenance of Facilities

- The budget includes \$3.7 million in FY 2003 and \$5.3 million in FY 2004 for operation and maintenance of new facilities.

Targeted Funding Increases

- The budget includes \$12.5 million to implement new academic programs at Norfolk State and Virginia State Universities to comply with Virginia's Accord with the federal Office for Civil Rights.
- Another \$650,000 for the biennium was provided to three institutions for various initiatives.

Research and Public Service Centers

- The budget shifts funding for certain research and public service centers from general fund to nongeneral funds.
- The General Assembly reiterated that it was not the Commonwealth's intention to continue general fund support for these centers indefinitely.

Budget Reductions

- The budget includes the following general fund reductions for higher education:
 - \$39.6 million for FY 2002
 - \$124.3 million for FY 2003
 - \$166.4 million for 2004
- These reductions were distributed by the General Assembly based on each institution's current funding level relative to the guidelines developed by the Joint Subcommittee on Higher Education Funding Policies.

Tuition and Fee Policy

- The budget gives boards of visitors the autonomy to determine appropriate tuition and fee charges, thereby ending a six year freeze on tuition and fees for Virginia resident undergraduates.
- The budget requires institutions to minimize the costs of tuition and fee increases for FY 2002-2004, and states the expectation that tuition increases will not exceed nine percent per year for in-state undergraduate students.

Bond package for fiscal year 2002 and 2002-04 biennium

Makeup of Package

- The legislative package represents a multi-year capital program consisting of 311 projects totaling \$1.79 billion over seven years.
- Appropriations for debt financing are contained in four separate bills:
 - \$397.6 million in HB 29 for VCBA / VPBA bonds to restore frozen capital and renovate state port facilities;
 - \$369.9 million in HB 1284 / SB 673 for VCBA / VPBA bonds to “jumpstart” \$174.2 million in higher education projects and \$74.9 million in other projects, as well as to fund \$120.8 million in projects at mental health, public safety and natural resources agencies and at the seat of government;
 - \$900.5 million in HB 99/ SB 31 for general obligation bonds for \$845.9 million in higher education projects and \$54.6 million for other educational and cultural agencies, subject to referendum; and
 - \$119.0 million in HB 1144 / SB 672 for general obligation bonds for land acquisition and other projects at state parks and natural areas, subject to referendum.
- Debt issuance is limited to \$250 million per year for all projects excluding ones funded in HB 29 (2002 budget bill).

Bond package for fiscal year 2002 and 2002-04 biennium (cont'd)

Planning requirements

- Provides for a six-year capital outlay plan to be submitted on November 1 of the odd-numbered year (coordinated with Governor's budget recommendations);
- Requires a proportion of capital outlay to be funded from current revenue and the proportion to be funded from bonds and other financing mechanisms, based on the projected level of revenue growth;
- Specifies that capital outlay be an amount equal to two percent of general fund revenues; and
- Earmarks unreserved, undesignated general fund balances at year-end for non-recurring expenditures; effective in FY 2005.

Execution requirements

- Provides that on or before September 1, 2002, each affected education agency or institution of higher education shall prepare an implementation plan for the projects indicating starting dates, completion dates, cash flow requirements, and anticipated additional operating costs.
- Requires Governor to release a plan for execution of the capital projects on or before January 15, 2003. If modifications are necessary to earlier plans submitted by the agencies and institutions of higher education for budgetary or debt capacity reasons, the Secretary of Finance shall confer with money committees and affected agencies to develop criteria for which projects proceed and which are deferred.
- Requires Secretaries of Administration and finance to make recommendations to expedite the capital outlay review process by January 15, 2003.
- Provides for annual status report on progress of capital projects by Secretaries of Administration, Education, Natural Resources and Finance by September 1 of each year.