



## Overview of Budget Actions for the 2002-2004 Biennium

The slower-than-expected economic recovery and resulting decline in state revenues have brought budget challenges to the Commonwealth. When Governor Mark Warner took office in January 2002, the budget shortfall totaled \$3.8 billion for the remainder of fiscal year 2002 and the upcoming 2002-2004 biennium. Working together, the General Assembly and the Governor agreed on a balanced budget for the biennium that cut state spending, used half of the state's "rainy day" reserve, authorized tuition increases at public colleges and universities, and froze car tax reimbursements.

None of these actions was easy, but they allowed Virginia to balance the budget and preserve critical state services.

By late spring, it became clear that the economy was continuing to struggle. Corporate scandals and the plummeting stock market prevented the economic recovery from building at the pace that had been anticipated. Like almost every other state, Virginia saw record declines in income tax collections. In fact, Virginia saw the largest decline in state revenues in the 40 years the Department of Taxation has kept records.

In the summer, Governor Warner called for a new revenue forecast for the biennium. The Governor's Advisory Board of Economists and the Governor's Advisory Council for Revenue Estimates, which include the state's leading business executives and economists, advised that the economic forecast should be lowered. In August 2002, the Governor reported that Virginia faced an additional revenue shortfall of \$1.5 billion for the current two-year budget. Coupled with necessary spending the Com-

monwealth has little control over, the new budget "hole" reached more than \$2 billion. This is over and above the \$3.8 billion already addressed in the current Appropriation Act.

### October executive reductions

Faced with these realities, Governor Warner took immediate steps to curb state spending. He imposed strict spending limits on every state agency and college, and restricted all new hiring of state employees and consultants. In addition, he called on state agencies to prepare three separate proposals to cut their budgets by seven, 11, and 15 percent. The Governor and his Cabinet Secretaries carefully reviewed the detailed plans submitted by agencies and received input from state legislators, local officials, and interest groups.

In October, the Governor directed state agencies to begin implementing budget reduction plans that will save \$857.7 million over the next two years. The total includes \$725.1 million from the general fund (or a 10.4 percent reduction for the biennium) and \$132.6 million in nongeneral fund reductions (an 11.6 percent reduction).

The reductions affected 118 state agencies and institutions of higher education, averaged close to 11 percent, and ranged up to 15 percent. Excluding state colleges, 63 of the 91 state agencies will have their budgets reduced by the 15 percent maximum amount in at least one year. (By law, the Governor may not unilaterally cut individual agency spending by more than 15 percent over appropriated amounts. Anything

above that level requires General Assembly approval.)

The reduction plans involved projected layoffs of 1,837 full- and part-time state employees, ranging from senior management to entry-level. These figures do not include the impact on state colleges and universities, whose Boards of Visitors in November approved final reduction plans, but layoffs in higher education may number in the hundreds.

The reduction plans announced in October protected from cuts the most critical government services such as State Police and local sheriffs, basic state support for public schools, long-term care for the elderly and disabled, and health care for low-income Virginians.

As they developed their reduction plans, many agencies re-examined long-standing practices and were able to identify savings that actually improved their effectiveness. For example, the Department of Environmental Quality and the Department of Corrections eliminated redundant management layers, the payroll processing for over 40 agencies was consolidated into a single small unit at the Department of Accounts, and mail service for a number of agencies using the Department of the Treasury was privatized. Contracts were renegotiated in today's economic environment, when companies are willing to provide significant discounts to gain the state's business. The Department of Social Services was able to save more than \$800,000 each year on a single contract.

However, it was not possible to avoid reductions that affected direct services for Virginians. Reductions implemented in October include the following:

- ▶ Every Department of Motor Vehicles (DMV) office across the state has closed one day a week, and 12 branch offices closed permanently. At the same time, DMV has taken other steps to help the public gain access to its services. State Department of Alcoholic Beverage Control (ABC) stores also reduced their operating hours.
- ▶ State support for local and regional libraries, local and state museums, the arts, public broadcasting, and instructional television

was reduced by 15 percent. The Library of Virginia has closed one day a week, and many local libraries are shortening their hours as well. Some state museums are closing one additional day a week.

- ▶ State support for cooperative extension was reduced by 12 percent a year, eliminating 147 extension agents, faculty, and support positions.
- ▶ Funding for state colleges was reduced. Cuts for each college and university vary, based on tuition level and percentage of students from outside Virginia. State assistance for students who attend private colleges was reduced by 13 percent.
- ▶ State support for community mental health, mental retardation, and substance abuse services was reduced 10 percent.
- ▶ State funding for commissioners of the revenue, treasurers, and circuit court clerks was reduced 11 percent, and funding for commonwealth's attorneys was reduced seven percent.
- ▶ Half of the funding designated for maintenance and roof repair in state facilities has been eliminated.
- ▶ Capital grants for local and regional airport improvements were reduced 15 percent.
- ▶ A planned salary increase for public employees in fiscal year 2004 was eliminated.

More than 140 other programs saw their funding reduced, including soil and water conservation districts, industrial site development, workforce training, animal welfare inspections, tourism promotion, ports and harbors, and Area Health Education Centers.

Virginia's aggressive response to the fiscal challenges confronting state government enabled the Commonwealth to retain its coveted AAA bond rating in October.

## **Amendments to the 2002-2004 biennial budget**

The budget reductions announced in October resolved only about half of the budget shortfall. In his proposed amendments for the 2002-2004 budget, the Governor recommends other actions necessary to bring state spending into balance with expected revenues. In the face of these challenges, Governor Warner has protected funding for direct aid to education.

Given the magnitude of the budget shortfall, a withdrawal will be made from the Revenue Stabilization fund, consistent with constitutional provisions. Two withdrawals totaling \$374.4 million will allow the Commonwealth to address the immediate needs associated with the revenue shortfall while transitioning the budget so that it becomes more structurally balanced over the course of the biennium. At the end of 2004, \$129.1 million will remain in the fund to guard against future shortfalls.

The Governor also proposes necessary spending actions in his recommended amendments to the budget for the 2002-2004 biennium.

The following summarizes the major proposed amendments in each secretarial area:

### **Commerce and trade**

In the area of commerce and trade, budget reductions include the following actions:

- ▶ **Eliminating or reducing pass-through funding and grants.** The budget recommends reductions in pass-through funding for the Virginia Advanced Shipbuilding and Carrier Integration Center, Tredegar National Civil War Center, equine research, and coyote damage control. Affected grant programs include the workforce services program for regional partnerships and solar photovoltaic manufacturing incentive grants.
- ▶ **Implementing several fees to replace general fund program support.** The Department of Agriculture and Consumer Services will begin charging a fee for weights and

measures inspections of equipment used in retail food stores, gasoline stations, taxicabs, and vehicle weighing stations. The Department of Mines, Minerals and Energy will increase permit and license fees on gas and coal mines and mined land reclamation operations. Most of these permit and license fees have not been increased in many years.

- ▶ **Making program reductions.** Recommended program reductions impact the cooperative advertising program in the Virginia Tourism Authority and the reforestation program in the Department of Forestry.
- ▶ **Transferring agency responsibilities to another department.** The Milk Commission will be abolished and its responsibilities reassigned to the Department of Agriculture and Consumer Services.

In addition, the Governor's recommended budget amendments include the following actions:

- ▶ **Generating funds by selling the Virginia Housing Partnership Revolving Loan Fund portfolio.** The sale will be made to the Virginia Housing Development Authority, which currently assists in administering the fund with the Department of Housing and Community Development. The fund assists low-income families by providing affordable mortgages for both single-family and multi-family housing. This policy change consolidates the state's affordable housing programs within the Virginia Housing Development Authority, creating greater efficiencies and providing effective opportunities to address low-income housing needs in Virginia. The sale will generate revenue estimated at \$40.8 million for the general fund.
- ▶ **Providing additional funding for health and safety positions.** Additional positions in the Department of Labor and Industry will be used to monitor compliance with federal health and safety program standards.

## Education

Governor Warner's proposed budget amendments fulfill one of his top priorities: to preserve the current funding for K-12 public education. His recommendations exempt Standards of Quality funding from any across-the-board or targeted cuts, and provide over \$86.9 million in additional support over the biennium for public education programs. The additional funding includes \$43.0 million to address significant growth in student enrollment and \$44.6 million in additional Lottery proceeds, offset by some technical updates in funding. These additional resources represent the Governor's commitment to investing in our public education system, its teachers and principals, and our children.

Recommended reductions in the area of education include:

- ▶ **Reducing funding for the arts.** Funding for grants and administrative personnel at the Virginia Commission for the Arts will be reduced.
- ▶ **Eliminating state support for the Virginia Women's Institute for Leadership Program.** This program was originally created to finance female cadets at Mary Baldwin College at a time when the Virginia Military Institute (VMI) did not admit women. VMI began accepting female cadets in 1997, eliminating the purpose for which state funding was provided. Although this specialized student financial assistance funding for the Mary Baldwin College cadets is eliminated, the students will become eligible for Tuition Assistance Grants.
- ▶ **Reducing state support for the Virginia Corps of Cadets.** General fund support for operating expenses is currently provided through VMI for the Virginia Corps of Cadets at Virginia Tech and at Mary Baldwin College. Funding for the program will be phased out over two years.
- ▶ **Reducing the Department of Education operations.** The Department of Education will achieve savings by reducing staff, eliminating executive management support, and capturing savings in current programs.

In addition, the Governor's recommended amendments for education include the following actions:

- ▶ **Enhancing early reading and remediation initiatives.** The Governor has assessed many of the current incentive-based education programs and now proposes using available resources from some of these programs to bolster the state's early childhood intervention programs as well as the state's support for remediation activities. Specifically, the Governor establishes a Student Achievement Program using current resources from dropout prevention, health incentive, and technology assistance activities.
- ▶ This new Achievement Program will focus these resources on established programs that data-driven research has shown result in improved student achievement. These programs include: early reading, at-risk four-year-olds, K-3 class size reduction, and SOL remediation activities. The Governor's intent is to provide additional state resources to the students who need it most. The Governor has included a waiver process to allow schools to continue dropout prevention, health incentive, and technology assistance activities if they can demonstrate the effectiveness of their programs.
- ▶ **Distributing additional Lottery proceeds to school divisions.** The Governor provides nearly \$44.6 million in additional Lottery proceeds. School divisions can use this funding to address their most critical needs, including school construction, class-size reduction, and technology improvements. This is the distribution of additional Lottery proceeds for 2003 and 2004.
- ▶ **Continuing the Governor's PASS initiative.** The Governor created Partnership for Achieving Successful Schools (PASS) to provide special attention and assistance to Virginia's at-risk schools. PASS has targeted more than 100 academically warned schools that, due to their struggles with student performance on the Standards of Learning exams, are to receive enhanced services from visiting academic review teams. Thirty-four of these schools have also been designated PASS Priority Schools and will receive addi-

tional intervention and follow-up to track the progress made by students, teachers, and administrators.

- ▶ **Providing enrollment funding and other technical updates.** Many of the actions impacting K-12 funding are routine technical updates to current funding formulas, including adjustments to account for student enrollment, sales tax, participation in categorical and incentive-based accounts, and the latest inflation information.

## Health and human resources

The Department of Medical Assistance Services, which has the largest appropriation of health and human resources agencies, found the most opportunities to achieve programmatic savings within the secretariat. These reduction strategies limit any undue impact on health care for needy Virginians. Recommended reductions in the area of Health and Human Resources include the following actions:

- ▶ **Streamlining office staffing.** Redundancy in staff roles and functions will be eliminated at the Department of Social Services in central and regional offices, thereby promoting more efficient operations.
- ▶ **Implementing savings strategies for medications.** By establishing a preferred drug list, increasing the co-payment on certain medications, requiring prior authorization on certain prescriptions, and bringing the pharmacy dispensing fee in line with commercial insurers, Virginia will save over \$17 million in 2004.
- ▶ **Using other funding streams in appropriate programs.** Federal funds, such as Temporary Assistance for Needy Families (TANF) and block grants, will substitute for general fund support for certain programs in the Virginia Department of Health. The state will also take advantage of other ongoing state revenue sources, such as fees.
- ▶ **Freezing inflation adjustments for providers.** Inpatient hospitals, nursing facilities, and health maintenance organizations routinely receive an inflation adjustment in the reimbursement rates they charge for provid-

ing services to Medicaid clients. Maintaining reimbursement rates at 2003 levels will save nearly \$57 million.

The Governor is also recommending funding necessary to respond to important health and human resources priorities, including the following:

- ▶ **Funding Medicaid use and cost of services.** Medicaid enrollment continues to grow, as does the cost of the services provided. Medicaid has been one of the fastest-growing programs in the state budget. New funding of more than \$142 million will ensure that quality care is provided to Virginians served by the Medicaid program.
- ▶ **Improving transportation for Medicaid recipients.** The Governor recommends nearly \$9 million to ensure medically necessary transportation services for Medicaid clients.
- ▶ **Addressing the needs of Virginians with mental illness.** The Governor recommends additional funding for medications for Virginians coping with mental illness in the community. Nearly \$4 million is also recommended to place clients in private psychiatric beds, so they can avoid being admitted to state hospitals and typically have a shorter length of stay.
- ▶ **Stabilizing children in a family setting.** Foster care and the adoption of special needs children can be further strengthened by providing additional funding to ensure that these children will quickly move into permanent home environments. The Governor recommends nearly \$7 million to ensure that the state fulfills its obligation to these children in need.
- ▶ **Restructuring mental health services.** An estimated \$13 million in facility-based mental health services will be restructured and reinvested in community-based care.
- ▶ **Improving access to healthcare.** Nearly \$30 million from the general fund and a like amount of matching federal funds is included in special payments to soften the impact of reimbursement rate freezes, thereby improving access to health care for low-income Virginians. Payments would be made to hospitals, nursing homes, and

health maintenance organizations that serve as sole community providers or serve a large proportion of Medicaid clients or clients of the Family Access to Medical Insurance Security Plan.

## Natural resources

In the area of natural resources, recommended reductions include the following actions:

- **Reducing general fund support for various nonpoint source pollution reduction programs.** Affected programs include development of total maximum daily load plans, the implementation of local tributary strategies, and the Conservation Reserve Enhancement Program.
- **Replacing general fund program support with increased fees.** The Marine Resources Commission will increase fees on certain fishing licenses.
- **Eliminating or reducing pass-through funding and grants.** Proposed reductions affect pass-through funding for Soil and Water Conservation Districts and the Virginia Outdoors Foundation, grants under the Threatened Sites program, and Litter Control and Recycling Fund grants to localities and citizen water quality monitoring grants.
- **Reducing agency operations.** The proposed reductions affect a select number of state parks and natural areas, and the natural heritage stewardship program. The Marine Resources Commission will reduce general fund support for the marine police, and the Department of Historic Resources will close a branch office. In addition, layoffs will occur and branch offices will be closed at the Museum of Natural History.
- **Merging certain agencies' responsibilities with other departments.** The Virginia Museum of Natural History and Chippokes Plantation Farm Foundation will be merged into other agencies. The Science Museum of Virginia will assume the Museum of Natural History's responsibilities of housing animal and earth science samples and providing public exhibits and publications.

The Department of Conservation and Recreation will take over the Chippokes Plantation Farm Foundation's responsibilities of managing the Chippokes Farm and Forestry Museum.

In addition to these reductions, the Governor recommends that the Marine Resources Commission begin to collect previously assessed royalties and continue the assessment and collection of royalties for habitat encroachment and the use of state-owned bottomland. This action will generate additional revenue for the Commonwealth.

## Public safety

For public safety agencies, the Governor's recommended amendments include the following reductions:

- **Reducing the operating budget of the State Police.** The recommended budget reduces the operating budget of the Department of State Police by five percent, primarily through administrative and programmatic efficiencies. In consultation with the superintendent of State Police, the Governor is assured that there will be no reduction in the number of troopers patrolling Virginia's highways or responding to emergencies. Over the past year, the number of vacant trooper positions has been cut almost in half, from 120 to 64.
- **Reducing the general fund appropriation for operating costs at local detention centers.** The opening of the expansion of the Virginia Beach Juvenile Detention center will be delayed until 2005 and therefore funds for start-up and equipment will not be needed until then.
- **Reducing wage employees in ABC stores.** The hours worked by part time employees at the Department of Alcoholic Beverage Control (ABC) stores can be decreased, reducing operating costs while not impacting sales. The cost savings generated by this action will enhance ABC profits to the general fund.

In addition to these reductions, the Governor's recommended amendments include the following actions for Public Safety agencies:

- ▶ **Replacing out-of-state inmate revenue.** Additional funding is provided to the Department of Corrections to offset a decrease in the amount of revenue the state projects it will receive for housing inmates from other states and the federal government. This increase will enable the agency to continue its operations without closing any prisons.
- ▶ **Developing re-entry program.** To help inmates make a smoother transition into the community, additional funding and positions are provided to initiate a new program between the state's Department of Corrections and local jails. Jails will be asked to participate in this pilot program. Instead of being released directly from a prison upon the completion of their sentences, inmates in this program will be transferred to a jail in their home communities about three months prior to their release. After participating in transition programs, they will be put in the work release program, and will receive follow-up counseling upon release from the jail. This will free up prison space and allow local jails to transfer state-responsible prisoners sooner.
- ▶ **Providing additional operating funds at Culpeper Juvenile Correctional Center.** To meet the new operational plan of housing female juveniles at the Culpeper Juvenile Correctional Center, additional operating funds are recommended.
- ▶ **Selling staff houses.** The Department of Corrections has moved away from a policy requiring wardens and assistant wardens to live within 15 minutes of the prison where they work. With this policy change, the agency no longer needs to help provide housing to these employees. The recommended budget directs the agency to sell the residences it owns outside the boundaries of correctional facilities. All the proceeds from the sales, estimated at \$3.2 million, will be deposited into the general fund.
- ▶ **Implementing new DUI fee to support breath alcohol program.** The Governor

proposes to charge a new fee of \$100 to persons convicted of driving under the influence (DUI). The revenues from this fee will be used to support the Department of Criminal Justice Services' breath alcohol program, with any surplus revenues deposited to the general fund. The funds that presently support the breath alcohol program provided by the Department of Alcoholic Beverage Control (ABC) can be transferred to the general fund to support other state substance abuse treatment programs.

## Technology

To begin implementation of the new information technology strategic plan, the Governor proposes a major restructuring of the technology secretariat. An integral part of this plan is the establishment of the Virginia Information Technologies Agency. The agency will assume the core functions of the Department of Information Technology, the Department of Technology Planning, and the Virginia Information Network Providers Authority. The decentralized information technology operations of all Executive Department agencies, other than institutions of higher education, will also be consolidated and the new agency will provide direct technology support to these agencies.

The Governor expects a savings of about \$37.4 million resulting from improved utilization of the state's information technology assets. Of this amount, \$23.4 million will be transferred to the general fund and the remaining \$14.0 million is recommended to cover separation and start-up costs associated with the consolidation and to fund the following cost saving initiatives:

- ▶ **Centralized network management.** The Governor proposes a redesign of the state's computer networks. Improved network management will simplify users' access. The net savings from this initiative is expected to increase in the future.
- ▶ **Help desk consolidation.** The Governor recommends that the Commonwealth establish a consolidated help desk to improve services to state agencies and reduce costs.

- ▶ **License consolidation.** The Governor proposes centralizing the available price information on computer software, hardware, and services. Consolidation of contracts and improved management of both software licenses and maintenance services will generate cost savings.

## Transportation

In the area of transportation, the Governor's recommended reductions include the following actions:

- ▶ **Discontinuing consultant contract for statewide asset management program.** The Department of Transportation's Inventory and Condition Assessment System (ICAS) project was intended to define and develop a methodology for recording the inventory of the department's transportation infrastructure assets with condition ratings. The department will generate savings by not continuing the contract to capture asset inventory data statewide beyond Phase I.
- ▶ **Eliminating sheet metal shop, carpentry shop, and automotive shop.** The Department of Transportation will eliminate duplicative shop activities that are already performed by another agency under contract.
- ▶ **Reducing funding for the traffic management system.** The Department of Transportation will eliminate funding for the operations of its traffic management system. Funding needed to allow continued operations will be provided from other existing sources.
- ▶ **Using turnover and vacancy savings.** The Department of Transportation will eliminate 100 vacant positions over the biennium.

In addition to these reductions, the Governor's recommended amendments in the area of transportation include the following:

- ▶ **Enhancing the availability of Department of Motor Vehicles services.** To help the public gain greater access to the services provided by the Department of Motor Vehicles, the department will expand its use of licensed agents. This will include utilizing local Treasurers and Commissioners of the

Revenue as licensed agents. In addition, the department will provide more automated terminals at its offices to allow on-line transactions by customers, and employ roving teams in vans to administer driver's license tests in rural areas.

- ▶ **Adjusting transportation revenue.** Technical adjustments were made within all of the transportation agencies to reflect the most recent revenue estimates. Appropriation levels presently listed in the budget were based on optimistic revenue assumptions. Revised transportation revenue estimates, made in the spring, were more conservative to reflect the current economic conditions. Given this, the transportation agencies were operating on a budget that actually had less funding than what was noted in the Appropriation Act.

The most recent transportation estimates, though, have shown an increase over the spring forecast. However, the increase is still less than what is in the Appropriation Act. To present an accurate portrayal of the current transportation revenue estimates and to account for General Assembly actions, appropriate appropriation adjustments were made for all transportation modes.

## General government

Reductions included in the Governor's amendments in the area of administration and finance include:

- ▶ **Transferring certain agencies' responsibilities to other departments.** The Commission on Local Government, the Human Rights Council, and the Virginia Liaison Office are to be abolished and their responsibilities reassigned to other state agencies. The Commission on Local Government's responsibilities to assist local governments analyze annexation proposals and the impact of state legislation on local governments will be transferred to the Department of Housing and Community Development. The Human Rights Council's responsibilities to investigate allegations of discrimination in employment, housing, and public accommoda-

tion will be reassigned to the Office of the Attorney General.

The Virginia Liaison Office's responsibilities to coordinate on federal issues, resolve state-federal administrative problems, and provide information on significant federal regulations and legislation to state and local officials will be transferred to the Governor's Office. In addition, the Virginia Public Broadcasting Board's responsibilities to allocate state funding for public broadcasting, instructional television for K-12 students, and radio reading services for print-handicapped Virginians are being consolidated into the Office of the Secretary of Administration.

- **Reducing aid to localities distributions for alcoholic beverage control profits and wine taxes.** These distributions will be reduced by 25 percent in 2003 and 50 percent in 2004 as a result of an increase in the amounts transferred to the general fund for expenses incurred for the care, treatment, study, and rehabilitation of alcoholics by the Department of Mental Health, Mental Retardation and Substance Abuse Services and other state agencies.
- **Reducing funding to sheriffs.** The Compensation Board will reduce by five percent over the biennium the funding it provides to local sheriffs. The reduction should result in no layoffs of the sheriffs' law enforcement personnel that are funded by the state.
- **Restoring funds for commonwealth's attorneys.** An increase in the amount of the fee collected for the Intensified Drug Enforcement Jurisdiction Fund of one dollar, from \$2 to \$3, has been included in order to decrease the October 15 reduction in the commonwealth attorney's offices from seven percent to five percent -- in keeping with the reductions in the sheriffs' offices.
- **Converting the Bureau of Capital Outlay Management into an internal service fund.** The Bureau of Capital Outlay Management reviews architectural, mechanical, and safety specifications for the state's building renovation and construction program. The Governor proposes permitting this bureau

to charge state agencies and institutions of higher education a fee for its services.

- **Reducing rent plan services.** Savings will result from lower rental rates for state agencies served by the Department of General Services (DGS) in the Capitol Square area. DGS will reduce services to these agencies.
- **Supporting the Charitable Gaming Commission with general fund dollars.** The Charitable Gaming Commission oversees raffles and bingo games permitted to raise money for charitable purposes. This action proposes to support the commission's work from the general fund. All of the agency's fee income will subsequently be deposited to the general fund.
- **Using Criminal Injuries Compensation Fund monies for Line of Duty Act payments.** The payments will cover death and health insurance benefits under the Line of Duty Act. The Act provides for payments to surviving spouses and dependents of certain public safety officers killed in the line of duty and for certain public safety officers disabled in the line of duty, and the spouses and dependents of such disabled officers.

In addition to these reductions, the Governor's recommended budget also includes the following spending amendments and technical adjustments:

- **Initiating a new tax compliance effort, a tax amnesty program, and a federal debt setoff program.** These programs will increase taxpayer compliance and enhance equitable application of the law to help assure the Commonwealth receives taxes that are owed. The biennial cost of these programs is \$12.4 million from the general fund. Through these programs, revenues associated with the general fund will increase by \$58.5 million. Localities and the Transportation Trust Fund will also receive increased revenues as a result of these programs.
- **Continuing Personal Property Tax relief.** Car tax reimbursements to local governments will continue at the existing level of 70 percent. Additional funding is required

due to an increase in new car purchases and higher assessed values on used vehicles.

- ▶ **Providing for increased state employee health insurance premiums.** Additional funding is recommended to cover the employer share of a premium increase in state employee health insurance resulting from the rising costs of medical claims such as prescriptions.
- ▶ **Providing funding for local and regional jail per diem payments.** Based on the most recent inmate forecasts, additional state funding is provided to local and regional jails for housing local and state responsible inmates.
- ▶ **Providing funding for increases in insurance premiums for constitutional officers.** Additional funding is provided to offset additional costs for general liability insurance for sheriffs, commonwealth's attorneys, treasurers, commissioners of the revenue, regional jail superintendents, and clerks of the circuit court.
- ▶ **Providing for increases in state agency property insurance.** The premiums paid by state agencies for property insurance will increase due to recent world events, and additional funding is recommended to cover these costs.
- ▶ **Providing funding for debt service on supplanted general fund projects.** The debt service for interest and principal payments will increase because some capital projects that were funded from the general fund will now be funded from bonds.

## Judicial

In the judicial area, the Governor recommends an increase in funds for criminal indigent defense. Additional funds are provided to pay the court costs of low-income persons. The Criminal Fund is a descriptive title for the various statutes that require the payment of court costs and allowances. The major expenditure in this fund is for the services of court-appointed attorneys for indigent defendants in criminal cases. The latest forecast of anticipated future costs of the Criminal Fund identified the need for the additional funding.

## Capital

Taking advantage of the downturn in the economy nationwide and the resulting availability of low long-term interest rates, the amended budget uses debt financing to fund capital projects. These projects will maintain existing state facilities and provide new facilities to meet the growing demand of the citizens of the Commonwealth. The use of debt financing will supplant \$86.6 million in general fund appropriations.

The amended budget includes \$90.0 million in capital projects funded by the Virginia Public Building Authority. Of this amount, \$27.9 million is debt financing for previously funded projects. The remaining \$61.1 million funds new projects or supplements to existing projects, including \$54.5 million for the renovation of Virginia's State Capitol. Originally constructed between 1785 and 1788, the State Capitol houses the oldest legislative assembly in the Western Hemisphere. The funds provided for this project will be used to replace obsolete mechanical, electrical, and plumbing systems, correct structural deficiencies due to more than 200 years of wear and tear, and restore the building's interior finishes.

The amended budget also includes \$63.9 million in state-supported projects funded by the Virginia College Building Authority (VCBA). Of this amount, \$58.6 million is debt financing for previously funded projects. The remaining \$5.3 million funds new projects or supplements to existing projects.

In addition to the state-supported VCBA debt, the amended budget includes \$99.8 million in self-supporting projects to be funded from revenue bonds permitted under Article X, Section 9(d) of the state constitution. Of the amount for 9(d) projects, \$49.7 million represents new spending and the remaining \$50.1 million provides supplements to projects approved in the 2002 general obligation bond act. The recommendations also include \$10.5 million in self-supporting 9(c) revenue bonds for renovations to housing facilities at Longwood University.