

Governor Gilmore's proposed amendments to the 2000-02 biennial budget

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

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Highlights of the Governor's amendments to the 2000-2002 budget

- v Continuing the car tax repeal phase-in as originally planned and promised to the people of Virginia (70 percent for tax year 2001 and 100 percent for tax year 2002)
- v Preserving our Revenue Stabilization Fund for a severe economic downturn (deposits are continued with no withdrawal of funds)
- v Protecting the investment in Virginia's institutions of higher education and other facilities by utilizing Master Tobacco Settlement funds and the Commonwealth's exceptional debt capacity
- v Providing well-deserved salary increases for state employees, funds to bring college faculty salaries to the 60th percentile, and additional resources for localities to increase compensation for local school teachers
- v Providing additional teachers in public schools and increased funding for K-12 education initiatives
- v Making higher education more accessible to all Virginians
- v Realizing substantial productivity and executive management savings in state government operations by reducing discretionary spending and waste
- v Setting tough spending priorities and keeping our promises to the taxpayers

Maintaining the highest priority — K-12 education

The Governor’s budget amendments provide an additional \$10.1 million to support initiatives in K-12 education

The amendments fund an additional 100-plus teacher positions, fulfilling and exceeding the Governor’s promise to provide 4,000 new teachers to help reduce class sizes

Governor’s initiatives:

- ∨ Expand the SOL algebra readiness program to help all students pass the Algebra I end-of-course test (\$2.6 million)
- ∨ Expand the Governor’s Academic Challenge program to provide remedial help to students who attend low-performing schools (\$6.0 million)
- ∨ Offer opportunities for students to retake Standards of Learning tests promptly and fund remediation (\$1.5 million)
- ∨ Continue to fully fund Standards of Quality (SOQ) and incentive-based educational programs (\$607,034)
- ∨ Provide additional Lottery proceeds to school divisions that they can use for school construction or other critical needs (\$5.2 million)

The amendments also contain \$70 million in state savings from reduced employer contribution rates for retirement benefits, which also creates over \$100 million in local savings that can be used for salary increases for teachers and other school personnel

Ensuring affordable, high-quality, and accountable higher education

The budget amendments include \$302 million in operation and capital funds for Virginia's colleges and universities

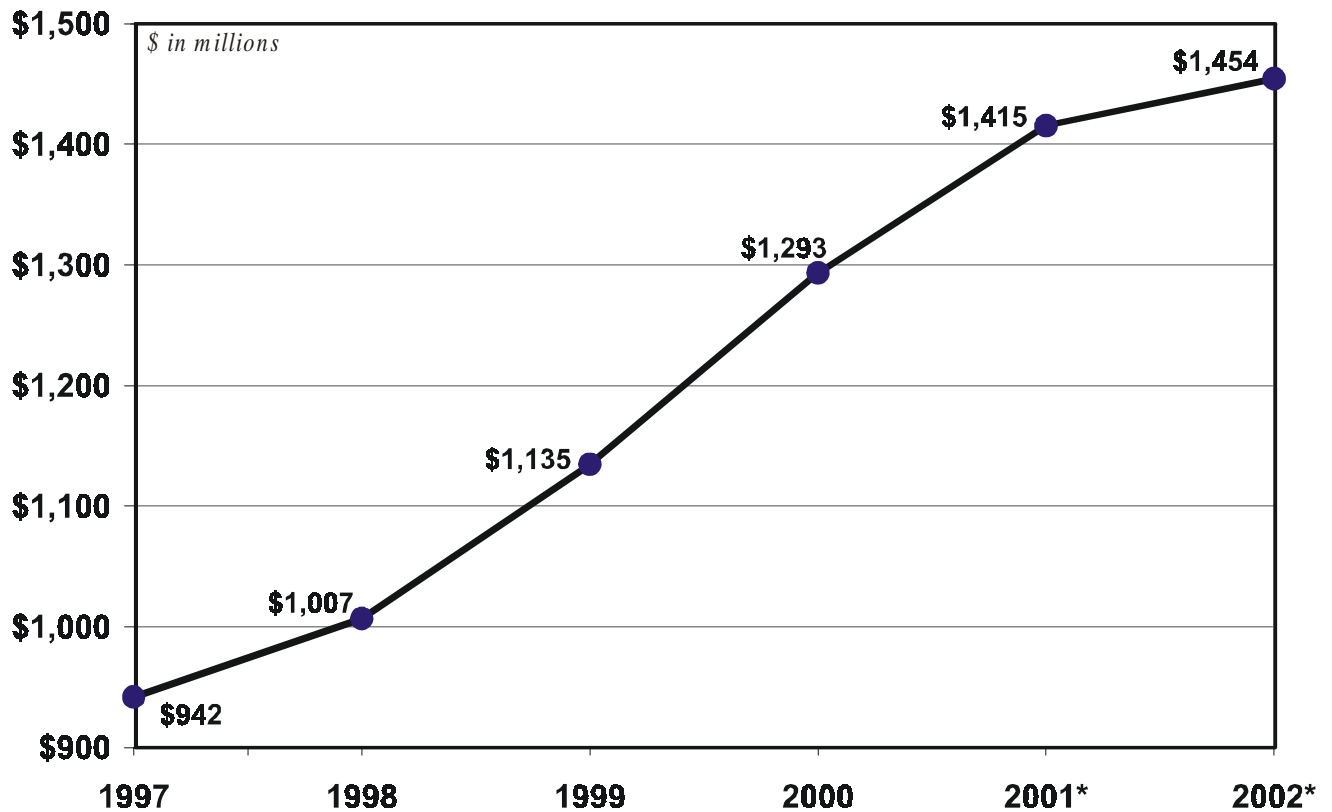
Governor's initiatives:

- ∨ Provide additional funds for student financial assistance by beginning the three-year phase in of funding to meet students' "true need" (\$5.8 million)
- ∨ Propose legislation to begin the New Century Scholars program to reward top-performing students and encourage them to attend Virginia schools.
- ∨ Restore enrollment growth funding for in-state students in 2002 (\$6.5 million)
- ∨ Maintain faculty salaries at the 60th percentile of each institution's peer group, in order to attract and retain highly qualified faculty, and to provide a 3.5 percent pay increase for nonteaching faculty and graduate students (\$12.8 million)
- ∨ Provide match for the "Access Virginia" program to assist in eliminating the "digital divide" among students, provide scholarship to low-income students, and increase the rate at which students from low-income families succeed in college (\$1.1 million)
- ∨ Provide additional funding for Virginia's historically black universities, Norfolk State and Virginia State (\$2.4 million in operating funds and \$30.1 million in capital)
- ∨ Fulfills promise to make Virginia the only state in the nation to provide a 100 percent match of the federal funds under the 1890 land grant program (\$890,385 to Virginia State University)

The Governor also proposes nearly \$250 million in capital funding for Virginia's colleges and universities (including \$187.8 million for new projects and \$61.8 million for maintenance)

Funding for colleges and universities increased 54 percent from 1997 to 2002

Total general fund operating appropriations



*Years represent state fiscal years, which correspond to academic years. Data for 2001 and 2002 reflect the Governor's proposed budget amendments

Source: Department of Planning and Budget, December 2000

Protecting the investment in Virginia's facilities

The Governor proposes leveraging Virginia's healthy debt capacity by using bond financing to address pressing needs for construction, existing or previously approved projects, and repair and maintenance

The Commonwealth's debt capacity remains at an exceptional level

The Governor proposes a \$600 million bond package including projects to be financed through the Virginia College Building Authority and the Virginia Public Building Authority

Out-year debt service on the proposed bond package will be paid from a new fund created by the sale of Virginia's allocation of Master Tobacco Settlement Agreement for future years

New projects to be financed through the VPBA include:

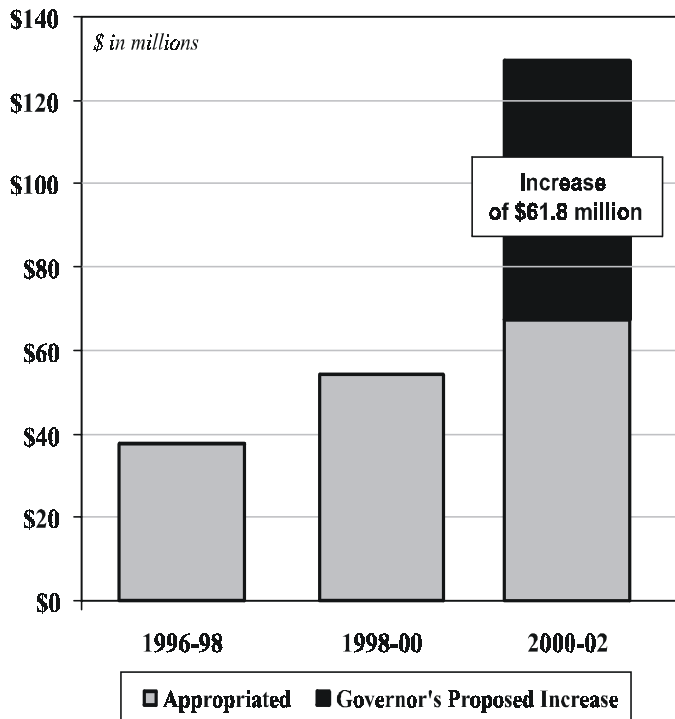
- ∨ Constructing a new Veterans Care Center in Richmond (\$9.2 million)
- ∨ Constructing a new Museum of Natural History building in Martinsville (\$15.2 million)
- ∨ Renovating the General Assembly building (\$5.7 million in new funding)
- ∨ Renovating the Old Finance Building in Capitol Square (\$24.6 million in new funding)
- ∨ Building a new parking deck at the Virginia Museum of Fine Arts (\$8.4 million)
- ∨ Adapting a correctional facility to house sexually violent predators (\$4.4 million in new funding)

Projects to be financed through the VCBA include:

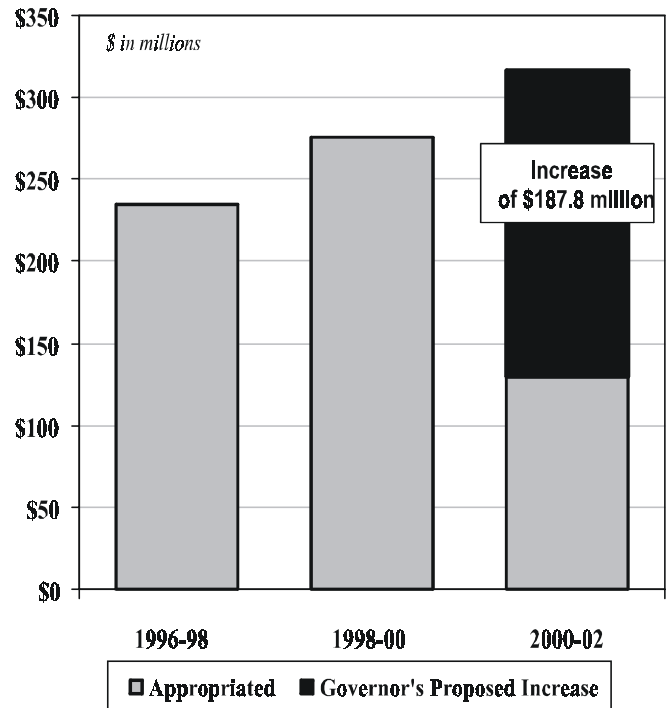
- v Repair and maintenance needs at the state's colleges and universities (\$61.8 million in new funding)
- v Renovating Andrews Hall at the College of William and Mary (\$4.6 million)
- v Constructing a new academic building at Tidewater Community College in Virginia Beach (\$1.5 million)
- v Constructing and furnishing new academic buildings at the Arlington and Fairfax campuses of George Mason University (\$30.7 million)
- v Renovating the Education Building and the Robinson Technology Building, completing heating and air conditioning renovations, and improving handicapped accessibility at Norfolk State University (\$14.6 million)
- v Improving the library at Richard Bland College (\$3.0 million)
- v Renovating Gandy Hall and the Lindsay-Montague Building and improving handicapped accessibility at Virginia State University (\$10.9 million)
- v Renovating Nichols Engineering Hall at Virginia Military Institute (\$15.0 million)
- v Constructing a biomedical sciences complex at Virginia Tech (\$16.0 million)
- v Renovating Cocke Hall and constructing a medical research building and an engineering research center at the University of Virginia (\$27.0 million)
- v Renovating several buildings at Virginia Commonwealth University, including West Hospital for Nursing, George Ben Johnston Auditorium, Hibbs Building classrooms, the Business Building, and two libraries (\$11.6 million)

Governor provides an additional nearly \$250 million for higher education capital outlay

Funding for maintenance



Funding for construction and renovation



Data for the 2000-02 biennium reflect the Governor's proposed budget amendments
 Source: Department of Planning and Budget, December 2000

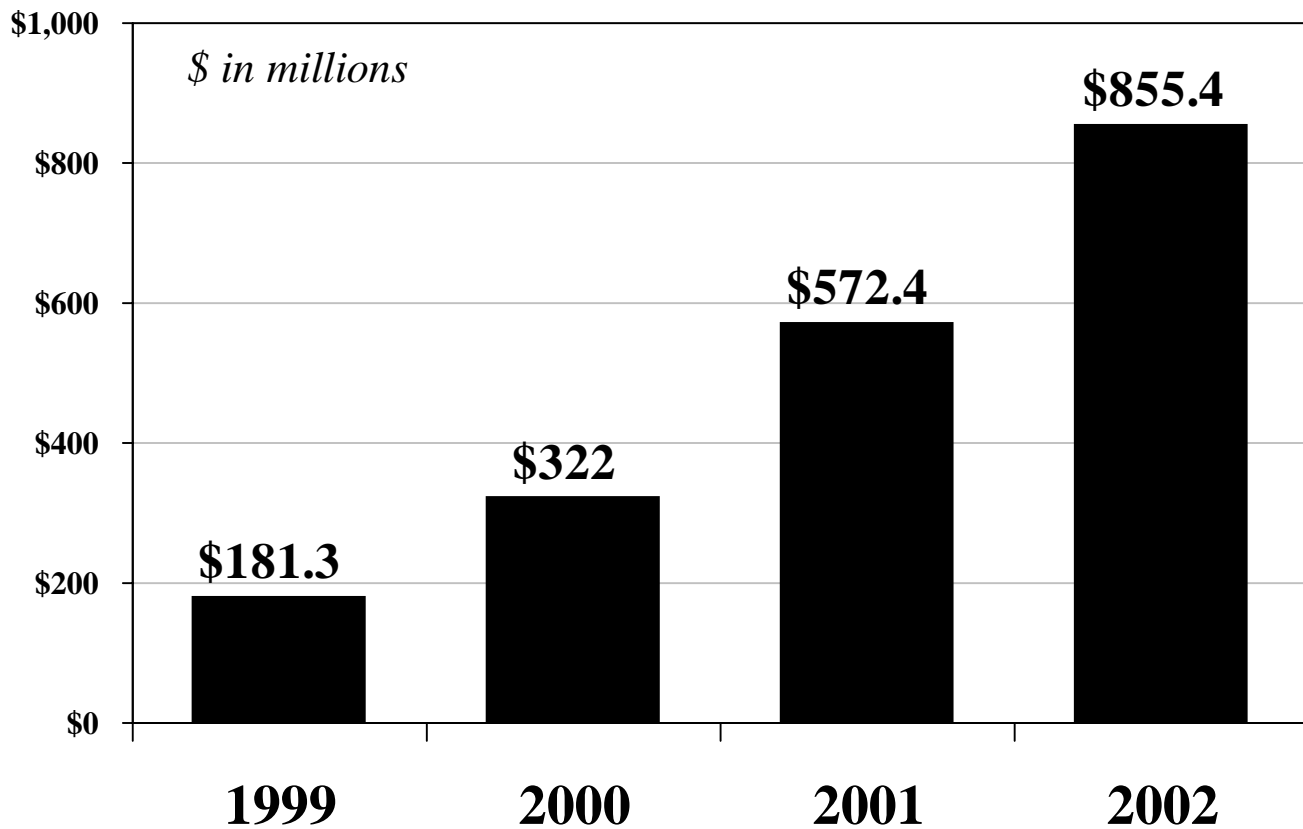
Continuing to provide relief from burdensome taxes

The Governor's amendments continue the planned phase-in of car tax relief:

- ∨ As promised, car tax relief will increase in 2001 to 70 percent of the personal property tax on personally owned vehicles valued at \$20,000 or less
- ∨ In 2002, car tax relief will increase to 100 percent, completely eliminating the personal property tax on vehicles valued at \$20,000 or less

Governor Gilmore's budget amendments ensure that car tax relief will be implemented in a fiscally responsible manner while adequately funding the Commonwealth's needs and controlling the growth of state spending

Governor continues car tax relief for Virginians



Data for 2001 and 2002 reflect the Governor's proposed budget amendments.
Source: Department of Planning and Budget, December 2000

Budget keeps car tax relief on schedule:

- √ 70 percent reduction in tax as of January 2001
- √ 100 percent reduction as of January 2002

Preserving the state's Revenue Stabilization Fund for an economic downturn

The Governor's amendments continue required deposits into the Revenue Stabilization Fund, without any action to withdraw funds

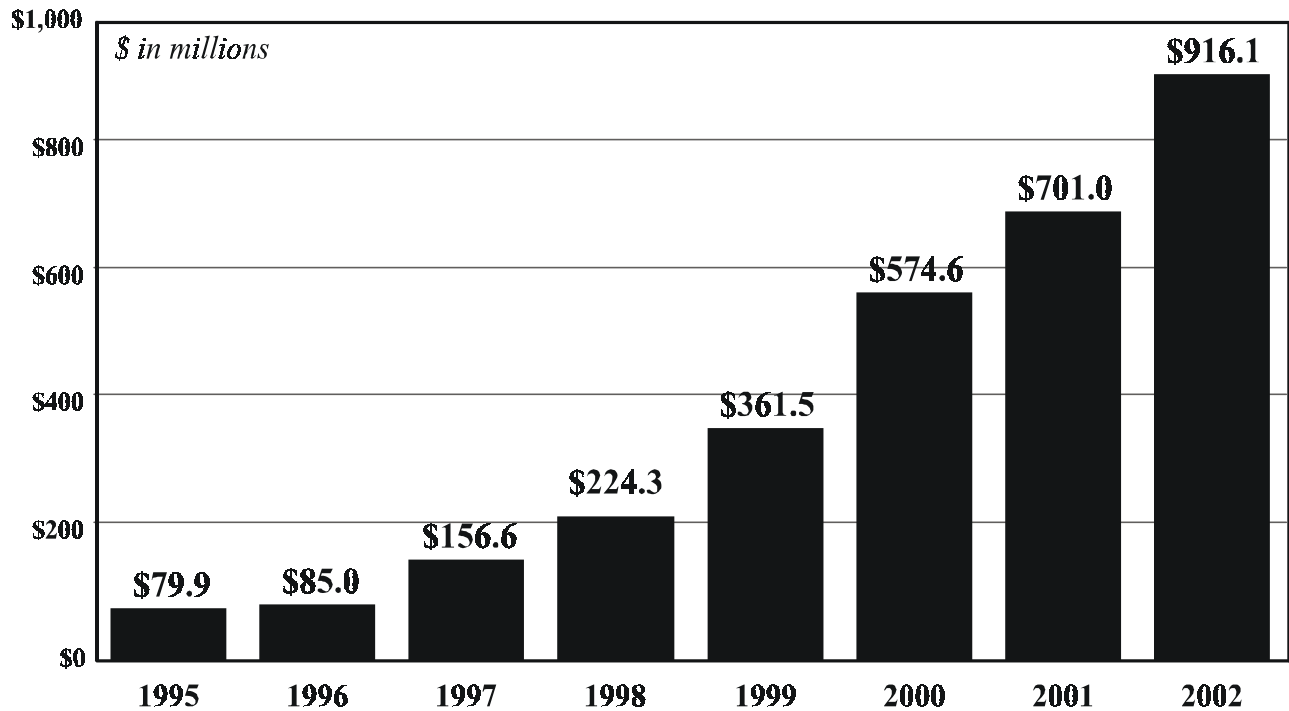
- v While revenue growth has decelerated, growth still continues
- v The fiscally prudent course of action is to reserve the fund for more difficult times should the economy take a downward turn

The 2000 Appropriation Act calls for a deposit of \$163.1 million to the fund in 2002, and the Governor's amendments add the additional \$24 million required to be deposited

By the end of fiscal year 2002, the amount in the fund is estimated to be more than \$900 million, including interest, or about 7.5 percent of yearly general fund revenue collections

Revenue Stabilization Fund will total over \$900 million by the end of 2002

Ending balance of the fund, including interest



Data for 2001 and 2002 reflect the Governor's proposed budget amendments and assume four percent interest earnings.
Source: Department of Planning and Budget, December 2000

Using Master Tobacco Settlement Agreement funds for higher education and economic development

The Governor proposes using Master Tobacco Settlement Agreement funds to provide resources for future higher education and economic development needs

- ∨ Virginia's allocation for future years under the Master Settlement Agreement with tobacco manufacturers will be sold to avoid future risk
- ∨ The Commonwealth will receive one up-front payment in a lump sum rather than continuing to receive multi-year payments

This initiative will add another \$460 million to general fund revenue during the 2000-02 biennium (\$223.0 million for 2001 and \$237.0 million for 2002)

Protecting Virginia's most vulnerable citizens

Governor Gilmore believes the Commonwealth has an obligation to work diligently to improve treatment and care for citizens who cannot care for themselves

His initiatives include:

- v Restructuring the mental health system to increase the quality and quantity of services available in the community, so our citizens with mental illnesses can receive care in the most appropriate setting (\$4.6 million)
- v Providing additional funds so the state can match Medicaid facility payments for treatment of citizens who need care in our mental health facilities (\$12.7 million)
- v Providing additional funds to ensure the high quality of special education and foster care services for children served by the Comprehensive Service Act (\$60 million)
- v Increased support for foster care and adoption programs to meet the needs of these children (\$11.7 million)
- v Funding the estimated need for utilization and inflation in Medicaid which provides health and mental health services for Virginians (\$96.5 million)
- v Implementing a new food stamp electronic benefit transfer system that will provide a more effective and efficient way of delivering these services (\$2.1 million)

Other initiatives

Governor Gilmore's budget amendments this year also fund initiatives in the areas of economic development, technology, and the environment:

- v **Workforce services.** \$4.5 million to ensure sufficient funding for this program to provide incentives for businesses to expand or to locate in Virginia and to provide training to Virginia's workers
- v **Shipbuilding center.** \$10.9 million to meet Virginia's commitment to the Virginia Advanced Shipbuilding and Carrier Integration Center
- v **Combined sewer overflow control projects.** \$2.7 million to continue to fund the combined sewer overflow control projects in Richmond and Lynchburg
- v **Virginia voter registration system.** \$2.1 million to continue system development to replace the Virginia voter registration system with state-of-the-art technology
- v **Community access to computers and the Internet.** \$1.0 million for PowerUp, a public-private partnership developed with America Online, the Case Foundation, and other key nonprofit organizations that will create internet-ready computer centers throughout the Commonwealth
- v **Local juvenile detention facilities.** \$9.3 million for the state's share of the operation of local detention facilities for juvenile offenders
- v **Funding for local and regional jails.** \$13.8 million to reimburse local and regional jails on a per diem basis for housing inmates

Recognizing the value of the state workforce

Governor Gilmore is committed to compensation reform. His amendments include funding for the two major elements: performance base salary increases and new flexible pay practices

His budget provides for an average increase of 3.5 percent for full-time state employees beginning November 25, 2001 (\$38.3 million)

- ∨ The actual increase for an individual classified state employee will be based on performance, as recommended by the Commission on Reform of the Classified Compensation Plan
- ∨ The Governor also proposes funding to be used for new pay practices to reward high performing employees (\$5.1 million)

The budget amendments also cover the employer share of the increased cost of premiums for the state employee health insurance program (\$15.3 million)

Controlling growth in government spending

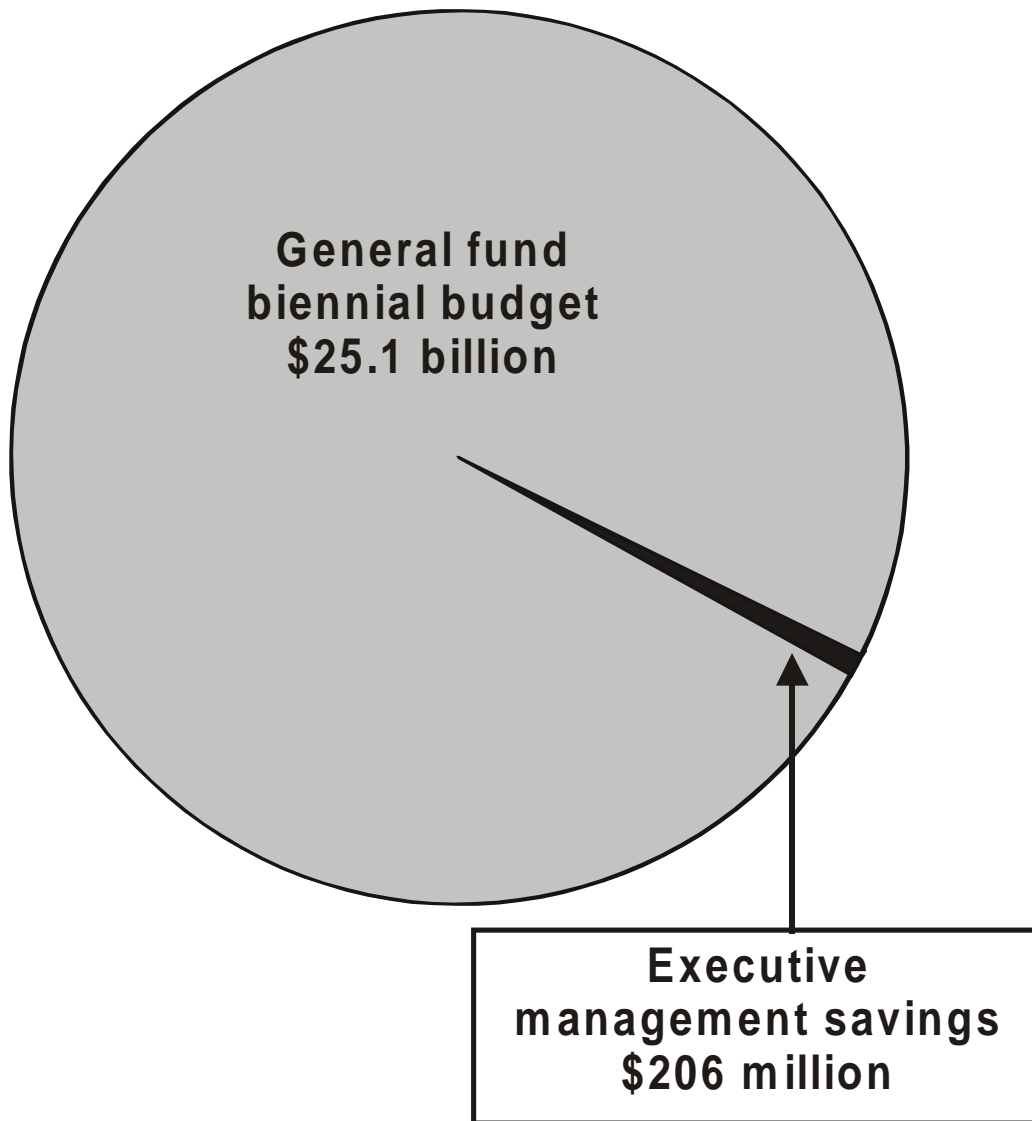
The Governor's budget amendments present the necessary actions to actively and responsibly meet the challenges proposed by the recent changes in economic conditions and revenue collections, while at the same time allowing him to keep his promises

To accomplish budget objectives such as continuing tax relief, preserving the Revenue Stabilization Fund, and putting the highest priority on education, the Governor's budget amendments include executive management savings of \$206 million to produce further efficiencies in the operation of state government

These reductions are achieved via both targeted and across-the-board reductions

- v The Governor's budget amendments contain \$138 million in targeted reductions to specific lower-priority activities in selected agencies
- v Across-the-board reductions (\$68 million in savings) consist of a three percent reduction for selected general fund programs in 2001 and a six percent reduction for 2002.
- v Agencies have the flexibility to determine the manner in which the across-the-board savings are generated, and will be urged to be creative and innovative and look toward creating efficiencies
- v Reductions preserve critical and essential government services, and are structured to cause the least pain. Programs exempted from across-the-board reductions include:
 - ✓ Agencies with 35 or fewer employees
 - ✓ Essential services such as the cost for law enforcement officers and mental health direct care staff are exempted
 - ✓ Debt service and various programs involving aid to localities and aid to individuals

Executive management savings represent a very small proportion of the budget



Figures reflect the Governor's proposed budget amendments. Source: Department of Planning and Budget, December 2000