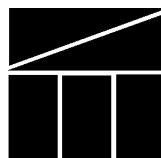


Governor Gilmore's proposed budget for 2002 and the 2002-2004 biennium

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

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Outline of presentation

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- Existing budgetary need
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- Balancing actions

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- Budget reductions
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Proposed bond package

Summary of budget actions

Governor's budget objectives

Continuing the Virginia tradition of fiscal responsibility

Recommending no tax increase in the midst of a recession

Using the Revenue Stabilization Fund as the Constitution intended

Rewarding hard-working state employees, faculty, public school teachers, and state-supported local employees

Protecting essential services in light of the need for budget reductions

Rectifying historical deficiencies at Norfolk State and Virginia State Universities

Supporting homeland security, emergency preparedness, and response capabilities

Keeping the promise to eliminate the personal property tax on personally owned vehicles valued at \$20,000 or less

Using Virginia's excess debt capacity and excellent bond rating to further progress on our capital (facility) needs

General fund budgetary need for fiscal year 2002

Resources:		<i>\$ in millions</i>
Total tax revenue		\$11,129.8
Master Tobacco Settlement Funds		59.3
Transfers		
ABC profits	24.9	
Lottery profits	323.0	
Other transfers	<u>21.3</u>	
Subtotal		<u>369.2</u>
Total general fund resources		\$11,558.3
Spending:		
Total operating expenses (Chapter 1073)		\$12,391.5
Capital outlay (Chapter 1073)		<u>95.6</u>
Total general fund spending (Chapter 1073)		\$12,487.1
Existing budgetary need		(\$928.8)

Budgetary and new spending need for fiscal year 2002

	<i>\$ in millions</i>
Existing budgetary need	\$928.8
New spending recommendations:	
Medicaid increases	97.4
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	13.3
Criminal Defense Fund	12.0
Mental retardation waiver (Medicaid)	10.7
Operating expenses for local detention homes	7.5
Anti-terrorism initiative	7.5
Virginia Advanced Shipbuilding and Carrier Integration Center	7.0
Maintenance and operating costs for Norfolk Public Health Building	1.6
Department of Health information network	1.4
Department of Taxation relocation costs	1.2
GEAR UP Program	1.1
All other	<u>3.8</u>
Total spending	266.2
Total budgetary and new spending need	\$1,195.0

Balancing actions for fiscal year 2002: Administrative actions

<i>Actions</i>	<i>\$ in millions</i>
Operating expense reductions [Productivity savings and EO 74 (01)]	\$50.9
VRS rate change (2000 valuation)	65.9
Capital outlay freeze (EO 74)	65.2
Natural disaster declaration and forest fires	<u>(9.2)</u>
Total administrative actions	\$172.8

Balancing actions for fiscal year 2002: Additional resources

<i>Actions</i>	<i>\$ in millions</i>
Withdrawal from Revenue Stabilization Fund	\$467.0
Intergovernmental transfers (Medicaid)	259.0
Capital outlay and other balances	<u>62.0</u>
Total additional resources	\$788.0

Revenue Stabilization Fund

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

Balancing actions for fiscal year 2002: Budget reductions

<i>Reduction</i>	<i>\$ in millions</i>
Two percent across-the-board reductions ((\$61.4 GF and \$4.9 NGF))	\$66.3
Personal Property Tax Relief Program (Defer 100%)	46.0
VRS rate change (2001 valuation)	18.1
SOQ incentive-base program update	17.4
Family Access to Medical Insurance (FAMIS) update	12.4
HB 599 allocation revision	10.4
Uncommitted balance in Commonwealth Technology Fund	3.3
Debt service revision	0.9
All other	<u>2.0</u>
Total reductions	\$176.8

Balancing actions for fiscal year 2002: Alternative funding strategies

<i>Actions</i>	<i>\$ in millions</i>
Use FRANS for transportation	\$73.6
Use Literary Fund for teacher retirement	<u>57.0</u>
Total fund switches	\$130.6

Summary of fiscal year 2002 'Caboose Bill' actions

	<i>\$ in millions</i>
Total general fund resources	\$11,558.3
Total general fund spending (Chapter 1073)	<u>12,487.1</u>
Budget need	(\$928.8)
 Budget actions:	
Spending recommendations	(\$266.2)
Administrative actions	172.8
Additional resources	788.0
Budget reductions	176.8
Alternative funding strategies	<u>130.6</u>
Total budget actions	\$1,002.0
Ending balance 6/30/2002	\$73.2

General fund base budget for the 2002-2004 biennium

	<u>FY 2003</u>	<u>FY 2004</u>	<i>Biennial Total</i>
	<i>\$ in millions</i>	<i>\$ in millions</i>	<i>\$ in millions</i>
Resources:			
Beginning balance 7/1/2002	\$73.2	...	\$73.2
Total tax revenue	11,370.8	11,997.0	23,367.8
Master Tobacco Settlement	59.1	52.0	111.1
Transfers	<u>355.2</u>	<u>349.7</u>	<u>704.9</u>
Total resources	\$11,858.3	\$12,398.7	\$24,257.0
Spending:			
Agencies' base allocation	<u>12,102.0</u>	<u>12,071.7</u>	<u>24,173.7</u>
Difference:			
Resources versus base spending	(\$243.7)	\$327.0	\$83.3

New spending: Recognizing the value of public employees

Employee salary increases \$210.5

- Additional two percent for state employees and faculty on November 25, 2002 (\$112 million).
- Salary increase for state employees will range up to five percent based on performance.
- Additional two percent for public school teachers (\$77.1 million) and state supported local employees (\$21.1 million) on December 1, 2002.
- Provision included in budget that earmarks a portion of any surplus revenue collected in FY 2003 to raising these salary increases beyond the two percent funded level.
- Provides population based salary increase for constitutional officers (\$0.3 million).

Increase in the cost of state employee health insurance \$50.1

- 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 and deductibles.

Maintain other fringe benefits provided to public employees \$28.9

- Fully funds increased cost of contribution rates for the retiree health care credit, the employee group life insurance program, and the Virginia Sickness and Disability Program.
- Rates based on an update of program assets and liabilities as of June 20, 2001.
- Provides funding to supplement contributions and to administer the Volunteer Firefighters' and Rescue Squad Workers' Service Award Program managed by the Virginia Retirement System (\$0.5 million).

New spending: Public Education

Fully fund the Standards of Quality (SOQ) \$416.2

- Fully funds the Standards of Quality for public education.

Complete Governor's Technology Initiative for K-12 \$122.4

- Completes web-based technology initiative with an additional \$116 million in bond proceeds financed through Literary Fund.
- \$6.4 million to establish web-based testing of the Standards of Learning in all high schools.

Increase funding for categorical education accounts \$21.9

- Provides additional funding for the English as a Second Language Program as well as detention home and special education jail activities.

Continue funding for education direct grants \$5.7

- Programs include: Project ECOLE, Student Exchange Program, Southwest Education Consortium, Project Discovery, Blue Ridge Regional Program, Hampton Roads Public Education Regional Co-op, Southside Virginia Regional Technology Consortium, Western Virginia Public Education Consortium, Alternative Education Pilot Programs, William King Regional Arts Center, Small School Division Assistance, and Jobs for Virginia Graduates.

Strengthen the Standards of Learning (SOL) \$5.5

- Nearly \$2.6 million to maintain current testing programs and over \$2.9 million for emergency retakes and remediation to students who fail to pass.

Increase funding for incentive-based education accounts \$3.9

- Provides additional funding for the local share of the Lottery distribution as well as at-risk children activities.

Provide 2% teacher salary increase effective Dec. 1, 2002 \$77.1

- Provides a two percent salary increase based on the state share of SOQ related positions effective December 1, 2002.

New spending: Higher Education

Provide 2% faculty salary increase in FY 2003 **\$46.5**

- Provides funds for a two percent salary increase for college faculty on November 25, 2002. Teaching and research faculty, administrative faculty, part-time faculty, and graduate teaching assistants will receive increases in line with classified employees statewide.

Enhance programs at Norfolk State and Virginia State Universities **\$20.0**

- Provides additional funding to Norfolk State and Virginia State Universities to enhance academic programs and to address critical deferred maintenance needs.
- Norfolk State University will receive \$8.5 million for academic enhancement and \$1.7 million for deferred maintenance. Virginia State University will receive \$6.0 million for academic enhancement and \$3.8 million for deferred maintenance.

Increase student financial assistance **\$12.7**

- Provides additional funds to begin phase-in of SCHEV's "Ensuring Greater Access" financial aid allocation model.
- Includes \$5.7 million or 25 percent of the additional funds needed in 2003, and \$7.0 million or 31 percent of the additional funds needed in 2004.
- 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 **\$11.4**

- 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.

New spending: Higher Education *(cont'd)*

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.

Fund Virginia Microelectronics Consortium **\$2.0**

- Provides additional funds to six senior institutions of higher education (University of Virginia, George Mason, Virginia Commonwealth University, Old Dominion University, Virginia Tech, and the College of William and Mary) and the Community College System to establish a comprehensive and in-depth undergraduate microelectronics program.
- The five-year BS/MS degree for selected students will utilize the specialized expertise and facilities of the member institutions in cooperative joint-degree programs.

Provide 100% match for cooperative extension activities at Virginia State University **\$1.8**

- Provides additional funds to continue the Governor's commitment that Virginia remain the only state in the nation providing a 100 percent state match of federal funds under the Federal Cooperative Extension and Agricultural Research Program (the 1890 land grant program).

Maintain Tuition Assistance Grant Program **\$0.7**

- Provides additional funds for the Tuition Assistance Grant (TAG) program, a tuition equalization program designed to lessen the gap between the tuition at a public college in Virginia and the tuition at an eligible private college.
- The funds provided will support an anticipated increase in the number of students attending Virginia's private institutions of higher education who are eligible for tuition assistance grants (TAG), based on fall 2002 enrollment. Students will continue to receive \$3,000 annually toward tuition.

New spending: Health & Human Resources

	<i>\$ in millions</i>
Medicaid utilization and inflation	\$610.3
▪ Funds cost and utilization increases and provides \$23.4 million for reclassification of pharmacy rebates.	
Comprehensive Services Act (CSA) growth	\$137.7
▪ Funds mandated special education and foster care services for CSA youth.	
Mandated foster care maintenance and adoption subsidy payments	\$38.0
▪ Includes a mandated 2.1% increase in foster care rates effective July 1, 2003.	
Indigent health care at academic health centers	\$34.7
▪ Addresses unreimbursed indigent health care services.	
Eligible community services with the Temporary Assistance for Needy Families (TANF) grant	\$31.8
▪ Provides TANF to support CSA, Virginia Department of Health, and competitive grants, with preference given to organizations previously funded.	
Medicaid match for mental health and mental retardation facilities	\$27.4
▪ General fund Medicaid match for treatment of facility clients.	
Mental Retardation Waiver slots	\$23.8
▪ \$18.0 million for currently approved slots and \$5.8 million for 150 additional slots.	
Information technology infrastructure funding for Health Department	\$6.0
▪ Supports the network serving every program and service in local health departments.	

New spending: Health & Human Resources *(cont'd)*

Federal mandate to operate an Electronic Benefits Transfer (EBT) system for Food Stamps **\$4.0**

- Fully funds the implementation of an EBT system by October 2002.

Enhanced staffing at training centers for mentally retarded **\$3.4**

- Increased professional and direct care staff.

Federally mandated spending to improve Food Stamp eligibility and benefits accuracy, based on prior error rates **\$1.5**

- Future penalties will be eliminated.

Child support enforcement operations **\$1.5**

- Funds the nation's best child support enforcement operation.

Implement program to treat violent sexual predators **\$1.4**

- Begins development in fiscal year 2004 of a secure program.

Medicaid claims processing system **\$1.2**

- Federal requirement for an effective operating system.

Replace old computers used on mission-critical systems in over 150 local DSS offices (Master Equipment Lease Program) **\$1.1**

- Replacement of 1,700 computers statewide.

Continue Pharmacy Connect in Southwest Virginia **\$0.7**

- Facilitates low-cost or free medications from pharmaceutical companies.

Fund Comprehensive Services Assistance and Review Team **\$0.3**

- Provides technical assistance to localities through site visits and training.

New spending: Public Safety

Replace out-of-state inmate funds \$63.3

- Provides general fund dollars to account for growing state inmate population and decreasing out-of-state inmate revenues.

Per diem payments to local jails \$25.8

- Increases per diem payments to cover anticipated increases in the number of inmates in local jails.

Increase funding for criminal indigent defense \$23.2

- 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.

Share operational costs of new local detention centers \$18.9

- Funds the state's share of operating costs for new local detention centers.

Anti-terrorism response initiatives \$12.7

- Provides central funding source to respond to terrorist events or an emergency arising from other-than-natural disasters.
- Funds can be used for mitigation of hazardous materials, search and rescue operations, and other security and emergency preparedness-related activities, including up to 100 additional State Troopers.

Increase local law enforcement personnel \$7.4

- Ensures one law-enforcement deputy per 1,500 population.

Continue development of the Integrated Criminal Justice Information System (ICJIS) \$1.6

- Provides state matching funds for \$6.4 million in federal grants for ICJIS.

Maintenance and operation of Norfolk Public Health Building \$1.6

- 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: Commerce & Trade

Provide Operating Funds for the Virginia Advanced Shipbuilding and Carrier Integration Center **\$14.0**

- Continues the operations grants to be used to establish or operate activities of the Center which is responsible for testing, design, and integration projects for aircraft carriers, and for education, training, and retraining of workers in the shipbuilding industry.

Fund Semiconductor Manufacturing Performance Grant Programs **\$6.7**

- Grant payments are based on the volume of manufacturing and sales of memory and logic wafers, the amount of new investment, and the number of new jobs created.

Fund Solar Photovoltaic Manufacturing Incentive Grant Program **\$3.6**

- Funds encourage companies developing new solar photovoltaic manufacturing facilities to locate in Virginia.

Fund replacement of critical fire fighting equipment through the Master Equipment Lease Program **\$2.1**

- Funds replacement of approximately one-third of the Department of Forestry's existing tractor and fireplow units.

Fund Semiconductor Manufacturing Education Grant **\$1.5**

- Funds will be used by a major semiconductor manufacturer to support various semiconductor education programs throughout Virginia in partnership with schools of engineering at public institutions of higher education.

New spending: Commerce & Trade (cont'd)

Provide debt service funding for worker training center \$0.9

- Funds debt service payments for a worker training center to be located at or near Volvo's New River Valley facility and potentially financed through the Pulaski County Industrial Development Authority.

Provide funding for the Virginia Commercial Space Flight Authority \$0.8

- Funds help the authority attract new aerospace businesses that will bring high-technology jobs to the Commonwealth and will help make Virginia the best location for space-based enterprise.

Provide funding for the information technology employment performance grant program \$0.2

- Initial funding for the grant program for information technology firms that employ at least 50 individuals in permanent full-time positions within an eligible region for 36 consecutive months beginning on or after July 1, 1999.
- Eligible regions include the planning district that had the highest annual average unemployment rate in the Commonwealth for calendar year 1998 and any adjacent planning districts.

New spending: Natural Resources

Reduce nutrients and sediments in the Chesapeake Bay **\$6.1**

- Continues the Commonwealth's participation in the federal Conservation Reserve Program through the addition of landowner incentive payments, supplemental rental payments for land, and the purchase of dedicated conservation easements.
- Through this program, nutrient and sediment pollution will be reduced in the Chesapeake Bay and the Southern Rivers watersheds.

Replace vehicles and maintenance equipment at state parks through the Master Equipment Lease Program **\$0.4**

- Funding will allow for lease payments on about \$1 million of equipment to support operations at state parks.

Replace public safety marine patrol vessels through the Master Equipment Lease Program **\$0.4**

- Funding will allow for replacement of about one-half of the Marine Resources Commission's existing marine patrol vessels.

Improve dam safety **\$0.2**

- Funding will make it possible to quickly bring the high hazard dams into compliance with the 2001 Virginia Dam Safety Act.

Increase support for Breaks Interstate Park **\$0.1**

- Funding will match the increase in annual support provided by Kentucky at the jointly operated park.

New spending: Finance

Personal property tax relief **\$75.2**

- \$36.1 million in savings in FY 2003 to continue car tax reimbursement at the 70 percent level for tax year 2003.
- \$111.3 million increase in FY 2004 to fully eliminate the car tax for vehicles valued at \$20,000 or below in tax year 2004.

Provide debt service for bond issues **\$42.6**

- Adds \$26.9 million for debt service payments on bonds issued by the Commonwealth Transportation Board.
- Adds \$6.9 million for debt service payments on bonds for the purchase of additional instructional and information technology equipment at the institutions of higher education.
- Adds \$6.2 million for debt service payments on bonds issued by the Virginia College Building Authority for new projects at institutions of higher education.
- Adds \$2.6 million for debt service payments on bonds issued by the Virginia Public Building Authority for new projects.

Provide tobacco enforcement unit for the Master Tobacco Settlement Agreement **\$0.9**

- Establishes and continues units at the Office of the Attorney General and Department of Taxation to enforce the non-participating manufacturers provision of the Master Tobacco Settlement Agreement.

Increase funding for payment of bank service fees **\$0.7**

- Adds funds to pay a greater percentage of bank service fees and allows the Department of the Treasury to invest additional balances at higher rates. Increases general fund revenues by about \$1.2 million over the biennium.

Provide additional funding for the Payroll Service Bureau **\$0.5**

- Covers the increased cost of operations of the service bureau that provides payroll services for about 5,300 state employees in 37 agencies.

New spending: Capital Outlay (Pay-As-You-Go)

Statewide infrastructure repair projects & improvements **\$52.7**

- \$50.2 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.
- \$2.5 million to address unanticipated emergency repairs and improvements at state agencies and institutions of higher education.

Deferred maintenance at historically black universities **\$4.9**

- Funding is provided to address critical deferred maintenance needs at Norfolk State University and Virginia State University. Projects may include items such as roof replacement, window replacement, routine maintenance on heating, ventilation, and air conditioning systems.

Summary of base budget and new spending needs in the 2002-2004 biennium

	<u>FY 2003</u> \$ in millions	<u>FY 2004</u> \$ in millions	<i>Biennial</i> <u>Total</u> \$ in millions
Total general fund resources	\$11,858.3	\$12,398.7	\$24,257.0
Spending:			
Agencies' base allocation	\$12,102.0	\$12,071.7	\$24,173.7
New spending recommendations	<u>778.7</u>	<u>1,285.2</u>	<u>2,063.9</u>
Total spending	12,880.7	13,356.9	26,237.6
Base budget and new spending need	(\$1,022.4)	(\$958.2)	(\$1,980.6)

Balancing actions for 2002-2004 biennium: Budget reductions

Continue two percent spending reduction and increase it by four percent **\$410.4**

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

Achieve general fund savings from college tuition and fees plan **\$133.2**

- Saves general fund dollars by requesting public colleges and universities to operate more efficiently, but affords the college and university boards of visitors the flexibility to propose, on a case-by-case basis, tuition or fee increases in order to offset general fund savings.
- Each institution will be required to submit a tuition increase plan for approval by the Governor, subject to a maximum increase of \$100 per student per semester.

Apply actuarially calculated rates in 2002-2004 biennium **\$74.1**

- 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.

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

Achieve savings attributed to dormant retirement accounts **\$50.1**

- 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 (\$25.0 million general fund, \$25.1 million nongeneral fund).

Use regular schedule to reimburse localities for constitutional officer expenses **\$38.7**

- Other than the month of June, the Compensation Board reimburses localities for the expenses of constitutional officers a month after the expenses have accrued.
- In June, the Compensation Board has been providing localities with two reimbursement payments—one during the first part of June for May expenses and one in the last part of June for June expenses.
- By maintaining the ordinary reimbursement schedule and reimbursing localities for June 2003 expenses in July 2003, rather than in June, the state will realize a one-time savings of \$38.7 million in 2003.

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

Fund retiree health credit through SOQ model **\$36.1**

- The 1996 General Assembly passed legislation that provides a basic health insurance credit for retired teachers and other professional school division employees (effective fiscal year 1998) with the state paying 100 percent of the cost.
- 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**

- 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.

Restructure funding for Comprehensive Services Act (CSA) **\$26.9**

- Includes elimination of local match on Medicaid to support leveraging of federal dollars, establishes a 50/50 statewide match for non-Medicaid expenditures, and provides additional local administrative funding.
- Supports CSA Trust Fund with TANF dollars (\$2.1 million)

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

Limit Medicaid hospital payments to 80 percent of total costs **\$22.6**

- Reimburses at marginal cost of Medicaid inpatient hospital services.

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.

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

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

Reduce Medicaid pharmaceutical costs below average wholesale price by increasing discounts **\$12.7**

- 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 state aid to local libraries **\$10.2**

- 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 25 percent.

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 Governor's Development Opportunity Fund **\$10.0**

- The \$20 million remaining after the reduction is split equally between fiscal years 2003 and 2004.

Reduce base budget for Commonwealth Technology Fund **\$9.4**

- 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.

Transfer Culpeper Juvenile Correctional Facility to Department of Corrections **\$9.1**

- Transfer underutilized juvenile correctional facility to Corrections.
- Corrections can close a field unit and move inmates to this facility.

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 retirement of 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.

Achieve savings by altering funding for teaching materials **\$6.4**

- The Governor's Budget provides a significant increase in funding for textbooks in the next biennium (\$13.9 million in fiscal year 2003 and \$14.2 million in fiscal year 2004) as part of the Standards of Quality rebasing.
- This increase is due in large part to the increase in Standards of Learning (SOL) related textbooks that are now available for class instruction.
- The budget, accordingly, reduces funding for school teaching materials. Despite the reduction, overall funding for textbooks and materials combined will increase by over \$10 million each year, well above the rate of inflation.

Eliminate Department of Corrections payments in lieu of taxes to localities **\$5.8**

- The department makes payments in lieu of taxes each year to some localities in which prisons are located. The purpose of these payments is to cover the costs of local services provided to state facilities, which are tax exempt.
- However, the prisons create little demand for local services that are not paid for in other ways. In addition, the prisons contribute significantly to the local economies.

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

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

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

Consolidate local social services management **\$4.0**

- Originally proposed under Governor Wilder with no expected impact on direct services or direct services staff.

Adjust HB 599 payments **\$3.8**

- This action adjusts the total for the HB 599 allocation for the revised revenue estimates. The total allocation is tied to projected growth in general fund revenues.

Use Temporary Assistance for Needy Families to fund Virginia Department of Health activities **\$1.5**

- The Comprehensive Health Investment Project (CHIP) of Virginia.
- The Virginia Fatherhood Campaign.
- Several teen pregnancy prevention programs.

Reduce funding for the Regional Competitiveness Act **\$2.0**

- After this reduction, regional partnerships will still receive over \$9 million a year in overall funding.

Adjust Family Access to Medical Insurance Security Plan funds **\$1.7**

- Supports current enrollment estimates.

Balancing actions for 2002-2004 biennium: Alternative funding strategies

Utilize bonds for road construction **\$652.5**

- Each year, one-half percent of the 4.5 percent retail sales tax is distributed to the Commonwealth Port Fund, the Commonwealth Airport Fund, the Commonwealth Mass Transit Fund, and the Transportation Trust Fund.
- The portion dedicated to the Transportation Trust Fund will be transferred to the general fund. It is estimated to be \$317 in fiscal year 2003 and \$335.6 million in fiscal year 2004.
- The Virginia Department of Transportation (VDOT) is authorized to issue Transportation Appropriation Bonds to replace the amount that is being transferred to the general fund. The debt service on the bonds will be supported by the general fund.
- VDOT will be able to use the bond proceeds for any highway construction project in the Transportation Development Plan or approved by the Transportation Board. This action will allow the agency to continue all projects as planned.

Use Literary funds to support teacher retirement **\$167.0**

- This action uses available Literary funds to supplant the general fund support for teacher retirement and social security.
- From fiscal years 1992 through 1995, the state utilized the Literary Fund for these purposes to a similar degree.

Discontinue direct grants to school construction **\$110.0**

- The Governor's budget authorizes \$151.3 million for the biennium from all sources for school construction. It continues school construction funding through the Lottery (\$126.3 million for the biennium). It also authorizes \$25 million in interest rate subsidies, which should generate school construction activities of over \$112 million.

Balancing actions for 2002-2004 biennium: Alternative funding strategies *(cont'd)*

Maximize federal funding by optimizing Medicaid claims, recovering costs, and reducing eligibility determination errors **\$38.0**

- The Department of Medical Assistance Services (DMAS) will work with other state and non-state entities.

Transfer 50 percent of the sales tax revenue on hunting, fishing and wildlife equipment sales to support state park operations and supplant general fund dollars (Department of Game and Inland Fisheries and Department of Conservation and Recreation) **\$12.3**

- Adjust the funding source for the operation of state parks from general fund to nongeneral fund.
- The nongeneral fund source is the Game Protection Fund deposit from the sales and use tax revenues.

Increase hazardous waste, solid waste, and water program permit fee revenues **\$6.2**

- General fund savings will be achieved by using revenues from the increased nongeneral fund permit fees to cover a greater portion of program costs.

Balancing actions for 2002-2004 biennium: Alternative funding strategies *(cont'd)*

Use Wireless E-911 Fund for State Police dispatch centers \$5.0

- Uses Wireless E-911 Fund for State Police dispatch centers that answer wireless 911 telephone calls.

Use Technology Trust Fund to support Circuit Court Clerks' offices \$5.0

- Uses \$5 million of Technology Trust Fund revenues for operations of Circuit Court clerks' offices in 2003. The budget provides a two-year extension of the Trust Fund to 2004 to cover these expenses.

Issue debt for industrial site development projects \$4.0

- Issue debt through the Virginia Public Building Authority rather than funding projects with cash.
- The number of projects funded each year will not change.

Utilize room and board money to operate diversion centers \$2.5

- This action replaces some of the general fund support for operating the diversion centers with "room and board" money collected from probationers. Probationers, placed by a judge in a diversion center, work at regular jobs during the day and return to the center after work.

Transfer 20 percent of the Watercraft Sales and Use Tax to support marine patrol operations and supplant general fund dollars (Department of Game and Inland Fisheries and Marine Resources Commission) \$2.0

- General fund savings will be achieved by using revenues from the increased nongeneral fund permit fees to cover a greater portion of program costs.

Balancing actions for 2002-2004 biennium: Alternative funding strategies *(cont'd)*

Utilize medical co-payment balances to pay some medical costs \$1.5

- This action replaces some of the general fund support for inmate medical costs with the balance in the co-payment fund. The Department of Corrections collects a co-payment from inmates for medical and pharmaceutical services.

Use Drug Assessment Fund balances \$1.2

- This action replaces some of the general fund support in the Departments of Corrections and Juvenile Justice with balances in the assessment fund.

Use Wireless E-911 Fund for Virginia Geographic Information Network Division \$0.3

- Supplant a portion of VGIN costs with Wireless E-911 funding.

Proposed bond package

Bond package by type of debt and government function

(\$ in millions)

<i>Category</i>	<i>9b-GOB</i>	<i>VCBA</i>	<i>VPBA</i>	<i>VPA</i>	<i>9(c)</i>	<i>Other Debt*</i>	<i>Total**</i>
Cultural Arts	0.0	0.0	105.2	0.0	0.0	0.0	105.2
Economic Development	0.0	0.0	17.8	0.0	0.0	9.0	26.8
Environment	0.0	0.0	0.0	0.0	0.0	1.0	1.0
Health & Human Resources	0.0	0.0	31.4	0.0	0.0	1.6	32.9
Higher Education	608.2	222.1	3.0	0.0	93.3	0.0	926.6
Other Education	0.0	0.0	1.4	0.0	0.0	0.0	1.4
Parks	0.0	0.0	1.6	0.0	0.0	1.0	2.6
Ports	0.0	0.0	0.0	131.0	0.0	0.0	131.0
Public Safety	0.0	0.0	92.2	0.0	0.0	3.0	95.2
Seat Of Government	0.0	0.0	22.8	0.0	0.0	0.0	22.8
Transportation	0.0	0.0	0.0	0.0	0.0	652.6	652.6
TOTAL	608.2	222.1	275.3	131.0	93.3	668.2	1,998.0

* "Other Debt" includes Master Equipment Lease Program and other miscellaneous debt.

** Totals do not include \$530.6 million in institutional 9(d) nongeneral fund obligation debt at institutions of higher education.

Figures may not add due to rounding.

Proposed bond package

Bond package showing new projects and those previously frozen under Executive Order 74 (2001)

(\$ in millions)

<i>Category</i>	<i>Frozen Under EO 74 (2001)</i>	<i>New Projects</i>	<i>Institutional 9c Debt</i>	<i>Other Debt</i>	<i>Total**</i>
Cultural Arts	97.5	7.7	0.0	0.0	105.2
Economic Development	0.0	17.8	0.0	9.0	26.8
Environment	0.0	0.0	0.0	1.0	1.0
Health and Human Resources	7.1	24.2	0.0	1.6	32.9
Higher Education	272.6	560.7	93.3	0.0	926.6
Other Education	0.0	1.4	0.0	0.0	1.4
Parks	1.6	0.0	0.0	1.0	2.6
Ports	0.0	131.0	0.0	0.0	131.0
Public Safety	6.8	85.3	0.0	3.0	95.2
Seat Of Government	9.2	13.6	0.0	0.0	22.8
Transportation	0.0	652.6	0.0	0.0	652.6
TOTAL	395.0	1,494.3	93.3	15.6	1,998.0

* "Other Debt" includes Master Equipment Lease Program and other miscellaneous debt.

** Totals do not include \$530.6 million in institutional 9(d) nongeneral fund obligation debt at institutions of higher education.

Figures may not add due to rounding.

Summary of general fund budget actions for 2002 and the 2002-2004 biennium

	<u>FY 2002</u> <i>\$ in millions</i>	<i>2002-2004</i> <u>Biennial</u> <u>Total</u> <i>\$ in millions</i>
Resources:		
Beginning balance	...	\$73.2
Tax revenue	\$11,129.8	23,367.8
Master Tobacco Settlement	59.3	111.1
Transfers	369.2	704.9
Additional resources	<u>788.0</u>	<u>...</u>
Total resources	\$12,346.3	\$24,257.0
Spending:		
Existing appropriations/ base budget	12,487.1	24,173.7
New spending recommendations	266.2	2,063.9
Administrative actions	(172.8)	...
Budget reductions	(176.8)	(978.1)
Alternative funding strategies	<u>(130.6)</u>	<u>(1,007.5)</u>
Total spending	12,273.1	24,252.0
Ending balance	\$73.2	\$5.0