

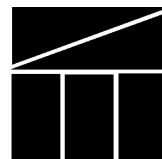
Budget Reduction Plans

and

Monthly Spending Limits

A briefing for the House Appropriations Committee

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Budget reduction plans: Governor's authority

- Article X, Section 7 of the Virginia Constitution mandates the Governor to maintain a balanced budget.
- Section 4-1.04 of the 2002 Appropriation Act states that all appropriations are payable only to the extent that the Governor estimates that revenues will be sufficient.
- Section 4-1.04 also authorizes the Governor to effect spending reductions when the General Assembly is not in session and after submitting a reestimate of revenues.
- The Governor is permitted to:
 - ✓ Reduce general fund and nongeneral fund appropriations by up to 15 percent, and
 - ✓ Reduce expenditures by either a uniform percentage, a graduated reduction, on an individual basis, or by a combination of these three actions.

Budget reduction plans: timetable

- July 11 The Governor convened the Advisory Board of Economists.
- August 7 The Governor convened the Advisory Council on Revenue Estimates
- Consensus is that the national recession, the weakening of the stock market, and the loss of nearly 35,000 jobs during the past fiscal year have slowed Virginia's economic recovery.
- August 19 The Governor submitted a formal reestimate of anticipated general fund revenues
- The revised general fund revenue forecast projects growth of only 0.8 percent in FY 2003 and 4.6 percent in FY 2004.
 - General fund revenues for this biennium are expected to be \$1.28 billion less than the amounts in the current Appropriation Act.
 - When combined with the \$216 million budget shortfall in FY 2002, total general fund revenues must be reduced by \$1.5 billion before any consideration is given to pressing spending issues such as Medicaid.
- The Governor directed all Executive Department agencies to prepare 7, 11, and 15 percent budget reduction plans. These are in addition to the 7 and 8 percent reductions already contained in the 2002 Appropriation Act.
- September 20 Agencies submit budget reduction plans

Budget reduction plans: overview

- Spending reductions are necessary to bring spending in line with available resources.
- Reduction plans at three different percentages allows flexibility.
 - ✓ It is unlikely that the same percentage cut will be applied to all state agencies and institutions.
 - ✓ Each agency or institution's plan will be evaluated on its merits and the impact it may have on core services.
- All state agencies and institutions of higher education should expect reductions of at least five percent.
- Certain programs and activities have been exempted to protect the Commonwealth's core priorities, including:
 - ✓ Direct aid for elementary and secondary education,
 - ✓ Direct care for the mentally ill and mentally retarded,
 - ✓ Protection of citizens from crime and external threats,
 - ✓ Public health services,
 - ✓ Student financial assistance, and
 - ✓ Debt service payments.
- State agencies and institutions were given full credit for any prepayments of their FY 2003 budget reductions.

Budget reduction plans: statewide totals

	FY 2003		FY 2004	
	General Fund	Nongeneral Fund	General Fund	Nongeneral Fund
Appropriation Act	\$11,827.7	\$12,677.5	\$12,097.1	\$13,030.4
Exemptions	8,690.4	12,086.1	8,913.7	12,448.2
Revised base	3,137.3	591.4	3,183.4	582.1
7% target	219.6	41.4	222.8	40.7
11% target	345.1	65.0	350.2	64.0
15% target	470.6	88.7	477.5	87.3

Note: Dollars in millions

Monthly spending limits: timetable

August 19	Governor announced plan to control state spending.
August 27	Agencies submitted spending requests for September and higher education institutions submitted quarterly spending requests to the Department of Planning and Budget (DPB).
August 30	Preliminary spending limits communicated to Cabinet, state agencies, and institutions of higher education.
September 1 - current	DPB monitors compliance with September spending limits for agencies and quarterly limits for institutions of higher education
Mid-September	Non-higher education agencies submit October spending plans
Late-September	October spending limits communicated to cabinet and non-higher education agencies

Monthly spending limits: overview

- The purpose of the spending limits are to:
 - ✓ Identify and prioritize discretionary spending such as travel, equipment, and other costs not required to support core agency functions, and
 - ✓ Control and limit this discretionary spending until budget reduction plans are submitted and approved.
- Spending limits are not intended to reduce state services. That will be addressed in agency budget reduction plans.
- There is an appeals process to address agency concerns regarding deferred items. Criteria necessary for an appeal to be approved are:
 - ✓ Loss of federal funds,
 - ✓ Life, health, and safety concerns,
 - ✓ Impact on service delivery essential to core mission of the agency, and
 - ✓ Other unanticipated events.
- Agency notifies its Secretary of concern and writes letter to Department of Planning and Budget detailing the appeal.

Monthly spending limits: deferred items

- Some examples of discretionary items requested by agencies but deferred in the September spending limit include:
 - ✓ \$17,900 for replacement computers, Virginia Economic Development Partnership,
 - ✓ \$3,000 to replenish paper/letterhead stocks, Virginia Tourism Authority,
 - ✓ \$38,333 for equipment, Department of Corrections, and
 - ✓ \$1,500 for a yearly curriculum retreat, Commonwealth's Attorney's Services Council.
- Additionally, numerous grants were approved only for monthly (September) or 1st quarter (July, August, September) allocations rather than disbursing the amount for the entire year.