



# Overview of Budget Amendments for the 2004-2006 Biennium

## **Governor Warner's Overview**

Virginia's expanding economy has provided substantial additional revenue above what was forecast last year. Much of that additional revenue comes as the result of federal procurement spending in the homeland security and defense areas – particularly in Northern Virginia – and from continued strength in the housing market. While the additional revenue offers a number of budget choices, it also provides a challenge to use the resources prudently and with an eye toward avoiding the kind of boom and bust cycle that has taken place over the past five years.

Governor Warner's amendments to the existing Appropriation Act reflect five basic objectives:

1. Maintain the Commonwealth's financial stability for the long term;
2. Continue efforts to reform the tax code;
3. Meet the Commonwealth's ongoing commitment to fund core services;
4. Make focused investments that will pay measurable returns in the future; and
5. Provide major cash infusion for transportation, which involves innovative approaches to addressing Virginia's transportation issues.

First and foremost is the commitment to maintain long-term financial stability. In the 2006-08 biennium, Virginia will face substantial increases in programs normally viewed as entitlements – including Standards of Quality (SOQ) re-benchmarking, with new SOQ standards recognized; rising costs of Medicaid; two new and two expanded prisons coming on line; higher costs for employee health insurance and retirement; and the need to increase car tax payment to \$950 million per year, to name a few examples.

Amending a budget this session with one eye on the 2006-08 biennium requires using available revenue as much as possible for one-time expenses, avoiding new spending commitments that grow significantly in out years, using cash rather than tax-supported debt for capital outlay, increasing support

for facility maintenance, and replenishing cash reserves – specifically the Revenue Stabilization Fund. Governor Warner's proposed budget meets each of these criteria.

The second objective is to continue efforts to reform Virginia's tax code. Governor Warner's budget funds the planned reduction in the sales tax on food on July 1, 2005, rather than over three years as originally planned. The budget also funds a proposal to advance by one year the date fixed for conforming with federal tax law, thereby simplifying taxes for Virginia businesses, and recognizing tax benefits provided for teachers and other individuals. The impact of these two tax policy changes totals \$105.8 million.

The third objective is to meet the Commonwealth's commitment to core services. Governor Warner's budget fully funds the Standards of Quality for public schools; fully funds the revised Medicaid forecast; provides additional resources to recognize enrollment growth in state colleges and universities, as well as additional financial aid to offset the effect of tuition increases; reinforces the safety net for Virginia's most vulnerable citizens; provides additional support for law enforcement; strengthens services for veterans; and funds existing commitments to local governments.

The fourth objective is to make focused investments, which will provide measurable returns in the future. Central among these is Virginia Works – a multi-faceted approach to stimulating economic development in rural areas. Other examples include support for specific research projects at state colleges and universities, and capitalization of the Biotechnology Commercialization Loan Fund, to aid the budding biotechnology industry in Virginia.

The fifth objective is to address Virginia's pressing transportation problems. Governor Warner's proposed budget amendments provide one of the largest cash infusions for transportation in Virginia history -- totaling more than \$824 million. Although the Governor's budget does not represent a permanent fix for transportation, his proposal does provide several innovative approaches not employed

in Virginia on a large scale, including funding of a revolving fund for public-private partnerships, a dedicated funding source for rail projects, a new fund to support mass transit, and funding to encourage local governments to take on management and control of construction projects.

*A summary of the highlights of Governor Warner's budget is detailed below and on the following pages.*

## **Transportation**

In recent years, numerous studies on transportation have concluded that Virginia's transportation needs outstrip available resources by a substantial margin. Any long-term solution to Virginia's transportation issues will require multiple ideas and approaches. While additional revenue alone is not the sole solution, additional resources are required.

Governor Warner's proposed budget amendments provide one of the largest cash infusion for transportation in Virginia history. Additional funds totaling more than \$824 million are provided for the following efforts:

- \$140 million for the Private Partnership Revolving Fund, to create an incentive fund for private developers to work with the state in constructing needed infrastructure projects;
- \$256.4 million to eliminate deficits on projects which are complete but which would still require future construction allocations;
- \$80 million for the Mass Transit Partnership Fund, to encourage localities to undertake new mass transit projects and address existing mass transit maintenance needs;
- \$80 million for the Local Partnership Fund, to encourage local governments to manage and oversee road construction projects within their boundaries;
- \$23.2 million for the Rail Partnership Fund, to provide a dedicated source of revenue for rail projects;
- \$97.4 million to address maintenance needs throughout the Commonwealth; and
- \$147.0 million to flow through the state funding formula to the benefit of all modes of transportation.

Much of this revenue is one-time, and does not constitute a permanent fix for Virginia's transportation issues. Nevertheless, the recommended funding does provide substantial additional resources for transportation.

## **Employee Compensation**

The Governor's budget amendments include an additional \$107.8 million to increase the salaries of Virginia's classified employees, faculty, teachers, and other state-supported local employees. State employees and faculty at the Commonwealth's public institutions of higher education will receive a three percent increase effective November 25, 2005. This action is necessary to help keep the Commonwealth competitive, thereby allowing Virginia to attract and retain an educated, dedicated, and motivated workforce. Public school employees funded through the Standards of Quality and state-supported local employees, including constitutional officers and their employees, local social services employees, local election board employees, local health employees, local juvenile justice workers, Community Services Board employees, and others, will also receive a three percent salary increase effective December 1, 2005.

In addition to the salary increase, the introduced budget provides \$32.6 million to cover the general fund share of employee health insurance premiums increases for state employees. This funding addresses the increases in utilization and costs. No changes in the benefit plan (co-payments, deductibles, coverage, etc.) are recommended.

## **Virginia Works**

The Governor's proposed budget includes over \$20.8 million for Virginia Works, to give rural areas and small cities new economic development tools and to change the approach to rural economic development in Virginia. Virginia Works has three components:

- Virginia Works for Existing Business,
- Virginia Works for New Business, and
- Virginia Works for Strengthened Communities.

The recommendations for existing business include two regional consortium grants to support current and future workforce training needs of existing businesses in distressed regions of the state. New business initiatives include incentives for tourism expansion, advanced manufacturing in economically distressed areas, artisan development, and agricultural expansions. Efforts to strengthen communities

include funds for a community development corporation that would expand business and housing loans in distressed areas, assistance in accessing federal tax credits for private investment in distressed communities, and a deposit to the Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund.

**Virginia Works for Existing Business.** The proposal adds \$4.0 million for two regional consortium grants, to support specifically identified current and future workforce training needs of existing businesses in distressed regions of the state. Applicants must identify existing industries important to economic growth in their regions; identify the skills and resources necessary in order to have a trained workforce to support those industries; identify current skill levels and skill gaps; develop a plan for remediation skill gaps and for developing necessary skills in workers; identify equipment and facilities needed to support training; form partnerships among local employers, local governments, and educational institutions; and provide local and industry matches for the regional grants.

**Virginia Works for New Business.** A series of actions are proposed to assist in the development of tourism in Virginia.

- \$3.0 million to acquire and develop a 38-mile section (from the Halifax County line to Lawrenceville) for the “rails to trails” program;
- \$375,000 to create a New Virginia Trails program that links through marketing and signage, a series of existing but related sites and venues. This effort will further expand the Commonwealth’s existing trail network that includes Crooked Road Music Trail, the Virginia Birding Trail, the Virginia Civil Rights Freedom Trail, and the Civil War Trail;
- \$297,500 to provide support to communities and businesses that want to develop tourism industry; and
- \$100,000 for the Virginia Enterprise Initiative to provide special targeted assistance to entrepreneurs and micro-businesses in the tourism sector.

In addition, a Virginia artisan initiative is included. This initiative has the following components: \$195,000 for marketing assistance and services; \$200,000 to the Virginia Community College System to develop and implement a curriculum focused on the entrepreneur and craft skills needed for students

to become professional artisans; \$75,000 to the Department of Education to develop a regional, summer Governor’s School program focused on a range of cultural subjects such as regional music, instrument making, and pottery; \$4.1 million to develop two regional artisan centers to serve as tourism destinations and sales venues for artisan products; and \$147,450 to develop a Virginia Artisan Trail that will direct tourists to existing artisan venues in the western part of the state.

An additional component of the New Business initiative involves advanced manufacturing. The advanced manufacturing initiative aims to strengthen advanced manufacturing in Virginia’s distressed areas and includes:

- \$379,000 to the Virginia Community College System to complete development of a new advanced manufacturing/packing program at Dabney Lancaster Community College;
- \$100,000 to Virginia Polytechnic Institute and State University (Virginia Tech) to support the Sloan Foundation Forestry Industries Center;
- \$215,000 to the Virginia Economic Development Partnership to assist small manufacturers with the export of advanced manufacturing products; and
- \$394,000 to the Virginia Community College System to be provided to Virginia’s Philpott Manufacturing Extension Partnership to support the creation of the Virginia Small Manufacturing Assistance Program, which will provide targeted assistance to the startup of new, and the expansion of existing, small advanced manufacturing businesses in rural Virginia.

Finally, the Virginia Works for New Business initiative will also focus on Virginia agriculture and includes:

- \$225,000 to the Virginia Department of Agriculture and Consumer Services to develop and implement a program to facilitate the development and marketing of high-value specialty agricultural production and identify resources to help farmers enter into new production; provide marketing support for specialty agricultural products; and, through existing funding sources, provide matching low-interest

loans to farmers or cooperatives for pilot projects for new specialty crop ventures.

- \$100,000 to the Virginia Department of Agriculture and Consumer Services to be provided to Virginia Tech and Virginia State University for additional research and field tests of specialty crops to determine which crops are best suited to Virginia conditions.

**Virginia Works for Strengthened Communities.** This program includes:

- \$600,000 to establish a community development financial institution to provide business and housing loans. To capitalize the institution, the Department of Business Assistance will transfer all assets of the Virginia Economic Development Revolving Fund and the Department of Housing and Community Development will transfer \$7.5 million in existing loans and funds from the Commonwealth Priority Housing Fund to a community development financial institution (estimated to be more than \$15 million in total). The purpose of the institution is to leverage the Commonwealth's capital contribution and other capital that may be provided from other sources to provide a source of targeted lending and investment for economic development and housing activities within distressed communities and populations throughout the Commonwealth.
- \$100,000 to support increased access to New Market tax credits, a federal program designed to stimulate private investment in distressed communities. The Department of Housing and Community Development will provide targeted assistance to organizations pursuing credit allocations; to communities that have eligible development activities; and to businesses and developers of community development projects for the purpose of increasing the number of Virginia organizations receiving allocations from the federal government and the projects in distressed communities that are able to use tax credits as part of their financing packages.
- \$4.0 million to the Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund (\$2.0 million to be allocated for grants to assist localities and

economic development authorities in rural areas of Virginia to acquire and redevelop closed industrial sites).

Taken together, Virginia Works signals a change of direction for economic development in Virginia's rural and distressed areas.

## **K-12 Education**

The existing Appropriation Act provided over \$1.5 billion in additional state funding for the Commonwealth's elementary and secondary schools. The Governor's budget amendments provide full funding for the Standards of Quality, distribute additional lottery and sales tax revenues, as well as provide the state share of funding for a three percent salary increase for public school employees, effective December 1, 2005. The amendments provide a net increase of \$48.8 million GF for the biennium when compared to the original appropriation.

The Governor's amendments also propose \$20.0 million in additional Literary Fund Subsidy funding in the second year, bringing the total available in FY 2006 to \$25.0 million. The Interest Rate Subsidy is used to provide funding through the Virginia Public School Authority for projects on the Literary Fund First Priority Waiting List. That Waiting List currently has 42 projects totaling \$212.8 million, including projects that have been waiting for funding since as early as February 2002. Combined, the FY 2006 subsidy funding will be leveraged to provide as much as \$200 million in project funding, depending on the market interest rates at the time of the subsidy sale.

Funding is provided to make-up the shortfalls from the 2004 session in specific categorical and incentive accounts, as well as a number of technical amendments to update enrollment and participation rates in various programs. Amendments also propose funding for increased support for the GED program and the school based breakfast program.

An update of student enrollment, based on September 30, 2004, fall membership results in a reduction of \$54.8 million for the biennium. For FY 2005, the forecast for ADM decreases 7,859 from 1,185,228 to 1,177,369, and for FY 2006, the forecast for ADM drops 10,738 from 1,201,451 to 1,190,713.

Governor's Warner's proposed budget also supports improved efficiency in public education. The proposed budget includes \$1.4 million for additional contracted school efficiency reviews and one position to monitor the contracts. These reviews will help guarantee that local school districts use state and local funding in an efficient manner. Funding for this

effort is included in the Department of Planning and Budget.

## **Higher Education**

At six town hall meetings from Wise to Virginia Beach to Annandale, participants called for expanding educational opportunities, providing affordable higher education, meeting the needs of a changing economy and promoting quality and accountability. Governor Warner's proposed budget amendments address many of these concerns. In sum, \$50.8 million from the general fund and \$150.4 million from nongeneral fund sources are budgeted.

The proposed amendments provide funding to recognize the enrollment growth that some colleges and universities have absorbed. This funding will help contain tuition and fee increases while ensuring that state higher education institutions have the resources needed to continue expanding educational opportunities.

The Governor's proposed amendments provide \$12.2 million in additional general fund support to institutions that are increasing the number of degrees awarded and the number of nursing graduates each year. By working to see that students not only enroll but also successfully complete their degree programs, these institutions are helping to meet the goal of yielding an additional 10,000 degrees by the end of the decade.

The proposed amendments ensure broad access to affordable higher education by increasing state appropriations for student financial aid by \$12.9 million. The Governor's budget proposes increases in need-based aid to offset tuition hikes at public colleges and universities and in Tuition Assistant Grants to help students attending Virginia's independent colleges and universities. The budget also proposes a waiver of out-of-state tuition for children and spouses of military personnel stationed in Virginia and their dependents. In addition, for the first time in nearly ten years, additional funding is recommended for graduate student financial aid. This funding will help Virginia keep the best and brightest graduate students in the Commonwealth, thus contributing to Virginia's success in research and economic development.

The amendments also include funding for innovative collaborations between local school districts, community colleges, and universities for Senior Year Plus programs. Senior Year Plus programs will provide avenues for college-bound students to begin accumulating college credits while in high school, allowing students to get a good jump on college and

save thousands of dollars in tuition. For students who are not planning to attend college, Senior Year Plus provides ways to attain the skills and credentials needed for a high-paying job. Participating high school students will be able to take industry-approved certification programs at community colleges and continue these courses free of tuition after graduation to prepare them for the workforce.

Additional funding proposed for faculty salaries (\$11.7 million from the general fund), cutting-edge research (\$3.5 million from the general fund), and resources for engineers and scientists will help Virginia attract and retain top faculty and continue to excel in today's high-technology economy.

## **Health and Human Resources**

The Governor recommends an additional \$259 million in state funding to meet increasing caseloads, rising costs, and high priority needs in health and human resources programs. Total funding exceeds \$620 million, when matching federal funds and grants are included.

Health care for the poor, mostly provided within the Medicaid program, accounts for the largest growth in spending. A net increase of \$182.8 million in state funding is added to meet forecasted growth in enrollment and inflation. Some savings and other actions to maximize federal reimbursement are also included.

Actions to increase access to care, notably obstetrical and dental services, are also proposed. Medicaid rates for obstetricians and expanded eligibility for pregnant women to 175 percent of the poverty level are proposed. Proposals to increase access to dental care, particularly for children in underserved areas, include increased dental provider rates, added funds for dental loan repayment/scholarship programs, and upgraded dental equipment in local health departments.

Other high priority needs of at-risk children are also addressed. Shortfalls in funding for early intervention services with young children are addressed in the Governor's recommendations, coupled with added funding for mental health treatment of older children. Improvements in foster care and the child welfare system are also proposed. In addition, rising numbers of low-income families will receive child day care and other support services. A number of recommendations are aimed at improving care for elderly and disabled persons. The Governor recommends enhanced state oversight and reimbursement to improve care in assisted living facilities. Additional mentally disabled persons will receive neces-

sary medications and access to crisis stabilization services. Funding to initiate community-based care for mentally retarded persons is included.

The Governor also recommends additional funding for housing, facility to community transition, case management, independent living skills, and guardianship, to enable individuals with disabilities to live as independently as possible in their communities. These measures represent Virginia's next step in implementing the 1999 U.S. Supreme Court *Olmstead v. L.C. & E.W.* decision, which specified that persons with disabilities who live in, are at risk of living in, or who are eligible to live in facilities or institutions have a right to live in the community.

## **Other Commerce and Trade**

In addition to the Virginia Works economic development initiative, the proposed budget includes limited funding to address a number of economic development priorities. \$2.0 million is provided for the Governor's Development Opportunity Fund. This fund assists Virginia in providing grants or loans to attract economic development prospects or to secure the expansion of existing industry in the Commonwealth. The proposed amendments also provide an additional \$500,000 for the workforce services program, to help support a 91 percent increase from FY 2002 to FY 2004 in workforce services projects.

The Governor's budget also meets funding commitments made in prior years. The semiconductor education grant (\$2 million) will be provided to Virginia Commonwealth University's School of engineering in support of the Infineon Technologies, Inc. major expansion. In addition, the proposed budget includes \$150,000 for the small business incubator program. This funding will help meet the state's commitment to support grants for existing incubators for the first three years of operation. Currently, the small business incubator network houses 259 businesses that employ more than 700 full-time employees and 120 part-time employees. Of these businesses, 28 percent are minority-owned and 29 percent are women-owned.

To help keep Virginia's forests, wildlife, and people safe, over \$700,000 is provided to replace communication and computer technology that will give the Department of Forestry the capability to communicate throughout the state to report incidents and monitor potential hazards in the forests.

Finally, \$458,000 is provided to staff the Office of the Secretary of Agriculture and Forestry.

## **Natural Resources**

The Governor's proposed budget amendments would improve environmental quality and natural resources. Over \$32.0 million in new funding will be deposited to the Water Quality Improvement Fund. Over \$16.0 million of this new funding will address point source pollution through grants to design and install biological nutrient reduction technology or other nutrient removal technology at publicly owned treatment works. The other \$16.0 million will pay for projects and programs to reduce nonpoint source pollution resulting from agricultural activities and land development. Funds will be used for projects that directly reduce the introduction of nutrients and sediment to state waters. Over \$700,000 is made available to localities to help in the development of water supply plans and in the evaluation of local and regional plans.

Almost \$3.0 million in additional funding will help to open new park facilities for outdoor recreation, improve public access and enhance wildlife management of natural area preserves, and repair dams in state parks to make them safer and prevent the loss of life or property. An additional \$300,000 will provide more marine patrol officers to help ensure safer waterways and increase homeland security.

The proposed budget includes more than \$300,000 to continue surveys of historic resources in Virginia, inventory threatened historic sites, and offer support for collaborative review of military installation projects that affect historic properties. In addition, about \$500,000 is added for operating expenses at the Virginia Museum of Natural History, to maintain the collection, research, and display of fossils, mammals, and reptiles as part of our natural resources heritage.

## **Public Safety**

Budget amendments totaling \$15.5 million from the general fund are included to strengthen investigation, enforcement, prosecution, and incarceration of offenders who are a risk to society. At the same time, funding is proposed for treatment, training, and education to those offenders who will be released into society from incarceration, to improve their chances of becoming productive citizens. Funding for expanded alternative sanctions are also aimed at preserving expensive jail and prison beds for those offenders who pose the greatest risk to society.

On the law enforcement front, 28 additional deputy sheriffs are authorized to cover Virginia's growing population, 12 state troopers are dedicated

to work with local governments against gangs, and additional operating funds are provided to support 15 more state troopers on the highways. In addition, funding and positions are provided to enhance Virginia's intelligence capability in preventing terrorism. To meet the increased demand for scientific support services by the criminal justice system, an additional 20 forensic positions are provided. To successfully prosecute crimes, an additional 36 positions are provided for Commonwealth's Attorneys' offices, with additional support also provided to train prosecutors on prosecuting gang-related crimes.

Alternatives to incarceration for non-violent offenders help to reduce the need for additional jail and prison beds. This proposed budget adds funding for home electronic monitoring, day reporting centers, and return to custody programs. All three programs restrict offenders' lives, while allowing opportunities for continued work, treatment, training, or education. Funding is also provided for services to assist in the reintegration of former inmates into society. This initiative is intended to reduce the number of released inmates that go back to prison, helping to reduce future corrections costs.

## ***Finance and General Government***

The principal change in Finance and General Government area involves the Revenue Stabilization Fund. The Governor's budget amendments include additional deposits to the Revenue Stabilization Fund totaling \$229.4 million. Of this total, \$94.9 million represents a supplement to the constitutionally required deposit of \$268.9 million, \$176 million of which has already been appropriated. Another \$134.5 million is provided as a super-deposit, in keeping with a statute, which requires extra deposits any time that extra-ordinary revenue growth occurs, as it did in fiscal year 2004.

In order to implement tax policy changes enacted by Special Session I of 2004, the proposed budget includes \$1.3 million in systems costs and \$1.0 million in personnel costs to the Department of Taxation.

Other changes in finance agencies strengthen financial controls, defray costs for safekeeping of securities, increase customer services in unclaimed property, and increase efficiencies in payroll services for the Commonwealth.

Budget savings are also included. Costs of debt service were lower than estimated. Lower than anticipated interest rates, efficiency in operations, and borrowing only amounts needed in the short

term have reduced debt service costs by more than \$32.8 million during the biennium.

## ***Judicial***

The Virginia Appellate and Supreme Courts are facing growing caseloads that threaten the timeliness of these courts judicial rulings. Proposed budget amendments increase the number of law clerks in each court, to allow Virginia to review and adjudicate appeals in a timely manner.

Additional support is also provided to help offset disappearing federal funds for drug courts. These courts offer judicial monitoring, intensive treatment, and strict supervision of non-violent addicts in drug and drug-related criminal cases. This program reduces the cost of incarceration and makes prison beds available for violent offenders.

Finally, funding is provided to address the growing costs forecasted for criminal and involuntary mental commitment indigent defense. Growing caseloads have resulted in the need for additional funding to support the court-appointed attorneys and related trial costs for individuals that cannot afford their own defense.

## ***Technology***

In the last biennium, the technology secretariat initiated major restructuring. An integral part of that plan was the establishment of the Virginia Information Technologies Agency (VITA), which centralized information technology operations for all Executive Department agencies, other than institutions of higher education. Proposed budget recommendations would further move toward final consolidation of information technology functions by transferring 706 technology positions from Executive Department agencies to VITA by the end of December 2005.

The Governor also recommends an additional \$5.1 million for technology agencies. These funds would be used for statewide strategic planning and project management and for updating aerial photography for the Virginia Base Mapping Program. Local governments and state agencies use this program for E-911, homeland security, tax assessments, transportation planning, and economic development. Funding is also provided to increase support for businesses engaged in technology and for technology research. Also, funds are provided to assist agencies with unexpected telecommunication rate increases. Finally, funding is provided to finance a biotechnology loan program. This loan program will provide

financing for technology commercialization activities related to biotechnology inventions.

## ***Capital Outlay***

With significant additional general fund revenue projected for the remainder of this biennium, sufficient resources are available to address capital outlay from current revenues. The proposed budget includes \$166.5 million from the general fund for capital projects and \$225.1 million from nongeneral fund sources to construct, repair, renovate, or maintain state-owned buildings. No additional bond authorizations requiring tax-supported debt of the Commonwealth are recommended in the Governor's budget, although some projects are authorized which use 9 (c) and 9(d) debt of colleges and universities.

The first priority among capital expenses is a substantial increase in funding for Maintenance Reserve projects. \$45.6 million is earmarked for maintenance reserve projects throughout the Commonwealth – a doubling of the biennial appropriation approved last year. In addition, the Governor has transferred second year funding in last year's budget bill to the first year to accelerate the effort to address the Commonwealth's maintenance needs.

A number of capital projects already authorized will require supplemental funding in order to proceed to construction. Some of the cost overruns are due to price increases in raw materials, such as steel and plywood. Others are due to dated cost estimates, which were the basis of the original appropriation. \$69.3 million from the general fund is provided to address this issue. An additional \$12.9 million is available from previously authorized General Obligation (GO) bonds, which are not required and may be shifted to other GO projects with cost overruns.

Several capital projects that will be completed this biennium require equipment in order to be occupied. \$31.6 million from the general fund is provided to acquire the needed equipment.

The remaining amounts support a limited number of new projects, most of which are supported from nongeneral fund sources, or supplements to existing projects. Of this amount, \$19.9 comes from the general fund and \$225.1 million comes from nongeneral fund sources or debt supported by revenues from colleges and universities. The new projects generally consist of amounts needed to address code compliance or essential infrastructure repairs necessary for the continued use of a building.