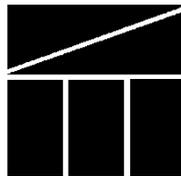


Governor McDonnell's Proposed Amendments to the 2012-2014 Biennial Budget

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

December 17, 2012



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Overview of Available Resources

The current budget, Chapter 3, included a planned carryover balance from FY 2012 to FY 2013 of \$675.5 million, which is the starting point . . .

Chapter 3, 2012 Acts of Assembly, Special Session I General Fund Only

	FY 2013	FY 2014	Biennium Total
General Fund Resources			
Prior Year Balance	\$ 675.5	\$ -	\$ 675.5
Additions to Balance	2.8	4.2	7.0
Revenue Forecast	16,313.1	17,041.7	33,354.9
Transfers	397.8	414.0	811.9
Total GF Resources	\$ 17,389.3	\$ 17,460.0	\$ 34,849.3
General Fund Appropriations			
Operating	\$ 17,320.4	\$ 17,502.3	\$ 34,822.6
Capital	20.3	-	20.3
Total GF Appropriations	\$ 17,340.7	\$ 17,502.3	\$ 34,842.9
General Fund Balance	\$ 48.6	\$ (42.3)	\$ 6.3

*Amounts shown in millions

FY 2012 unrestricted year-end balances exceed previously anticipated balances by \$300.5 million . . .

- FY 2012 ended with a revenue surplus of \$129.2 million.
- In addition, there was also an unexpended general fund appropriation balance of \$184.5 million.
- As a result of these year-end surpluses and other cash in the Treasury, the State Comptroller reported an unrestricted general fund cash balance as of June 30, 2012, of approximately **\$976.0 million**, which replaces the \$675.5 million previously anticipated in Chapter 3.

The year-end balance must be adjusted before determining the amounts available for appropriation . . .

Current Adjustments to Balance per CH 3

Intergovernmental Cash Management Act
 Judicial Branch Balances (Freeze Judgeships)
 Total Adjustments per CH 3

	FY2013	FY2014
\$	(0.5)	\$ (0.5)
	3.3	4.7
\$	2.8	\$ 4.2

New Adjustments to Balance

Add

Revenue Stabilization Reserve 2013
 Revenue Stabilization Reserve 2014

\$ 132.7 \$ -
 244.6 -

Subtract

Reappropriation of 2012 Unexpended Capital Outlay Balances
 Virginia Health Care Fund
 Central Capital Planning Fund
 Communication Sales and Use Tax
 3% Bonus for State Employees
 Natural Disaster Sum Sufficient
 Amount Required for Mandatory Reappropriation - 0100
 Amount Required for Mandatory Reappropriation - 0300
 Accelerated Sales Tax for Transportation Trust Fund
 Federal Action Contingency Trust Fund
 Federal Portion of Dominion Resources Refund
 Federal Portion of Internal Service Fund Interest
 Amount Required for Discretionary Reappropriations
 Nongeneral funds reported in general fund per GASB requirements

- -
 (7.0) -
 (65.3) -
 (2.0) -
 (40.3) -
 (77.2) -
 (29.9) -
 (32.4) -
 (66.2) -
 (20.9) -
 (30.0) -
 (1.5) -
 (0.6) -
 (33.5) -
 (168.2) -

Subtotal of New Adjustments \$ (197.7) \$ -

Total Adjustments to Balance

\$ (194.9) \$ 4.2

Total changes to resources result in net new funds available for spending . . .

Changes to General Fund Resources

	FY2013	FY2014
<u>Policy Adjustments to Balance</u>		
Restore balances for Judgeships	\$ -	\$ (0.7)
<u>Changes to Transfers</u>		
¼ cent sales tax	\$ (3.3)	\$ (4.6)
ABC Profits	8.3	9.2
Other Miscellaneous	2.5	6.7
Total Transfer Changes	\$ 7.5	\$ 11.3
<u>Changes to Revenues</u>		
Miscellaneous Technical Revisions	\$ (0.8)	\$ 0.1
GACRE Re-forecast	109.6	101.3
Post-GACRE adjustments	-	(25.0)
<u>Proposed Policy Changes</u>		
Adjust Sale of Brunswick (DOC)	-	(10.0)
DOA Small purchase charge card rebate	1.5	1.5
Restore 1/3 Interest from nongeneral fund accounts	-	(3.8)
Earned Income Tax Credit (federal conformity)	(7.0)	-
Penalty for insufficient electronic payments to Taxation	-	0.2
Sales Tax Revenue for Transportation	-	(48.1)
Increase taxable sales threshold for Accelerated Sales Tax	-	(20.8)
Total Revenue Changes	\$ 103.3	\$ (4.7)
Total Changes to Resources	\$ 110.9	\$ 6.0

*Amounts shown in millions

Virginia will have modest amounts of additional resources to direct toward high priority spending . . .

General Fund Only

	FY 2013	FY 2014
Base Revenue Forecast - CH 3		
Prior Year Balance	\$ 675.5	\$ -
Additions to Balance	2.8	4.2
Revenues	16,313.1	17,041.7
Transfers	397.8	414.0
Total GF Resources	<u>\$ 17,389.3</u>	<u>\$ 17,460.0</u>
Revisions to Forecast		
Prior Year Balance	\$ 300.5	\$ -
Additions to Balance	(197.7)	(0.7)
Revenues	103.3	(4.7)
Transfers	7.5	11.3
Total Revisions	<u>\$ 213.6</u>	<u>\$ 6.0</u>
Revised Revenue Forecast		
Prior Year Balance	\$ 976.0	\$ -
Additions to Balance	(194.9)	3.5
Revenues	16,416.5	17,037.1
Transfers	405.4	425.3
Total GF Resources	<u>\$ 17,602.9</u>	<u>\$ 17,465.9</u>

*Amounts shown in millions

Summary of Proposed Spending Changes

The proposed budget contains three forms of spending changes which add and subtract to overall spending for a net increase of \$211.4 million in operating spending over the two years . . .

- 75 individual amendments result from either targeted or agency reduction plans for savings of \$92.7 million.
- 75 individual amendments decrease spending by a total of \$431.6 million.
- 204 individual amendments increase spending by a total of \$735.7 million for the biennium.
- The result is a net increase in operating spending of \$211.4 million over CH 3.

Targeted savings were limited to two specific programs leaving the balance of savings to come from agency recommended strategies in response to the Governor's request for 4 percent savings plans . . .

- The first targeted savings was the elimination of the Cost of Competing for support positions within the Standards of Quality in FY 2014.
 - *Estimated savings - \$12.2 million*
- The second targeted savings is the capping of the disproportionate share payments in the Medicaid program.
 - *Estimated savings - \$21.7 million*
- Balance of savings taken from agency 4 percent plans.
 - *Estimated savings - \$58.8 million*

The top 10 savings amendments account for 93.3 percent of the total savings . . .

Agency	Title	FY 2013	FY 2014	
Treasury Board	Capture debt management savings	\$ (6,462,093)	\$ (23,500,950)	
Department of Medical Assistance Services	Maintain disproportionate share hospital payments at FY 2013 funding level	-	(21,746,159)	
Direct Aid to Public Education	Remove funding for cost of competing adjustment for support positions in second year	-	(12,157,638)	
Comprehensive Services for At-Risk Youth and Families	Reduce fraud, waste and abuse by enhancing data collection and analysis	-	(9,872,842)	
Department of Juvenile Justice	Close and repurpose juvenile correctional facilities	-	(7,073,399)	
Mental Health Treatment Centers	Reduce expenditures across mental health facilities	-	(1,548,584)	
Economic Development Incentive Payments	Capture savings associated with a revised schedule of Virginia Investment Partnership grant payments	(550,000)	(1,450,000)	
Department of Medical Assistance Services	Capture savings from lower cost of eligibility review contract	-	(1,110,987)	
Department of Social Services	Account for auxiliary grant balances	-	(500,000)	
Department of Social Services	Supplant funding for Community Action Agencies	-	(500,000)	
	Subtotal of Top 10 Reduction Strategies	(7,012,093)	(79,460,559)	93.3%
	Subtotal of All Other Reduction Strategies	(125,000)	(6,120,120)	6.7%
	Total Savings	\$ (7,137,093)	\$ (85,580,679)	

NOTE: These amendments reflect discrete changes and may need to be read with other amendments to obtain a comprehensive result.

The top 10 spending reduction amendments account for 94.9 percent of the total decreased spending . . .

Agency	Title	FY 2013	FY 2014	
Department of Medical Assistance Services	Adjust funding for Health Care Fund	\$(142,530,434)	\$ (59,966,365)	
Direct Aid to Public Education	Update Lottery accounts based on participation and prior year balance	(46,385,975)	(4,773,972)	
Department of Correctional Education	Eliminate funding for agency	-	(48,170,868)	
Comprehensive Services for At-Risk Youth and Families	Reduce appropriation to reflect anticipated caseload and program expenditures	(21,897,316)	(19,673,077)	
Direct Aid to Public Education	Update costs of the Standards of Quality (SOQ)	(8,844,986)	(10,687,354)	
Department for the Aging	Transfer FY 2014 appropriation to reflect merger into the Department for Aging and Rehabilitative Services	-	(17,480,147)	
Department of Social Services	Use Temporary Assistance for Needy Families (TANF) to replace general fund	(5,000,000)	(5,000,000)	
Direct Aid to Public Education	Increase Literary Fund support for school employee retirement contributions	(9,000,000)	-	
Central Appropriations	Remove funding for phone systems and increased information technology costs	(2,169,585)	(3,208,237)	
Central Appropriations	Establish retail maintenance network for maintenance drugs	-	(4,875,000)	
	Subtotal of Top 10 Spending Reductions	(235,828,296)	(173,835,020)	94.9%
	Subtotal of All Other Spending Reductions	(6,355,098)	(15,555,505)	5.1%
	Total Spending Reductions	\$(242,183,394)	\$(189,390,525)	

NOTE: These amendments reflect discrete changes and may need to be read with other amendments to obtain a comprehensive result.

The spending increases proposed in the introduced budget focus on six major themes for improving Virginia's financial health . . .

- Provide adequate funding for core services.
- Increase liquidity to guard against future economic uncertainty and the potential impact of federal spending reductions.
- Increase support for instructional spending in public education.
- Continue investments in higher education.
- Improve funding available to transportation.
- Improve support to localities.

These priorities are reflected in where the money goes to serve core functions and improve the Commonwealth's financial condition . . .

Provide adequate funding for core services.

- *State employee health insurance fund requirements = \$64.4 million (net after cost reduction actions)*
- *Inmate medical care = \$15.5 million (\$14.1 million net cost after Medicaid reimbursement)*
- *Open River North Prison (assumes January 2014 open date) = \$14.3 million*

Increase liquidity to guard against future economic uncertainty and the potential impact of federal spending reductions.

- *Early deposit to the revenue stabilization fund as credit against FY 2015 required deposit = \$50 million*
- *Reduce exposure from not selling Brunswick prison = \$10 million*
- *Maintain FACT Fund and allow for additional deposits.*

Education investments emphasize performance and progress toward future . . .

Increase support for instructional spending in public education.

- *2 percent pay increase for all SOQ funded instructional personnel = \$58.8 million*
- *Fully fund SOQ standards for blind and visually impaired students = \$4.9 million*
- *Strategic compensation grants = \$15 million*

Continue investments in higher education.

- *Tuition assistance grants for undergraduate students is increased to \$3,100 in FY 2014 (just \$100 short of the high water mark set in FY 2008).*
- *New investment of \$30 million in FY 2014 allocated as follows:*
 - Over \$4.2 million to cover interest earnings and credit card rebates ;
 - \$5.7 million for workforce development initiatives;
 - \$4.9 million for enrollment growth;
 - \$7.8 million in incentive funding to support degree completion;
 - \$3.9 million for base operating support;
 - \$1.9 million for financial aid; \$1.0 million for research and other initiatives; and, \$600,000 to maintain support of college room, board, books and supplies stipends through the Virginia Military Survivors and Dependents program.

Increased assistance to transportation and local governments round out the Governor's priorities . . .

Improve funding available to transportation.

- *Redirect a portion of general fund sales tax revenue to Transportation = \$48.1 million*

Improve support to localities.

- *Restore aid-to-locality reduction in FY 2014 = \$45 million*
- *Fund salary increases for Assistant Commonwealth's Attorneys = \$2.1 million*
- *Continues BRAC support in FY 2014 = \$7.5 million*
- *Water Quality Improvement Fund = \$16.9 million*
 - ❑ *\$2.3 million to assist localities with local storm water programs*
 - ❑ *\$14.6 million for agricultural best management practices*
- *Water Quality Bond Projects = \$200 million*
 - ❑ *\$5 million City of Hopewell*
 - ❑ *\$59 million for CSOs in Richmond and Lynchburg*
 - ❑ *\$35 million for urban storm water*
 - ❑ *\$101 million for prior commitments and new anticipated commitments through FY 2016*

The top 10 spending amendments account for 68.5 percent of the total increased spending . . .

Agency	Title	FY 2013	FY 2014	
Department of Medical Assistance Services	Fund Medicaid utilization and inflation	\$ 46,203,262	\$ 68,388,350	
Department of Accounts Transfer Payments	Provide additional funding for FY 2014 Revenue Stabilization Fund deposit	-	78,252,982	
Central Appropriations	Provide additional funding for the state employee health insurance program	-	69,658,535	
Direct Aid to Public Education	Increase salaries for public school instructional positions	-	58,698,268	
Department of Accounts Transfer Payments	Provide an advance deposit to the Revenue Stabilization Fund for an anticipated mandatory deposit in FY 2015	-	50,000,000	
Central Appropriations	Eliminate FY 2014 reversion clearing account savings for aid to local governments	-	45,000,000	
Department of Corrections	Transfer funding for adult correctional education	-	26,663,826	
Department of Medical Assistance Services	Fund medical assistance services for low-income children inflation and utilization	(240,471)	20,913,558	
Department of Juvenile Justice	Redistribute the Department of Correctional Education funding and positions	-	20,292,611	
Department of Medical Assistance Services	Fund Family Access to Medical Insurance Security program utilization and inflation	5,109,699	15,117,916	
	Subtotal of Top 10 Spending Increases	51,072,490	452,986,046	68.5%
	Subtotal of All Other Spending Increases	33,663,529	197,997,469	31.5%
	Total Spending Increases	\$ 84,736,019	\$ 650,983,515	

NOTE: These amendments reflect discrete changes and may need to be read with other amendments to obtain a comprehensive result.

Summary of Proposed Capital

Capital Outlay – FY 2014 . . .

<p>Supplement Maintenance Reserve</p> <ul style="list-style-type: none"> Addresses deferred maintenance needs that are critical to continued use of buildings, systems, or equipment. Provides for unanticipated needs such as: <ul style="list-style-type: none"> \$4.3 million to remediate mold and condensation problems at Consolidated Lab facilities; \$2.5 million to replace pump station at Ft. Monroe; and, \$2.1 million for repairs and equipment replacement throughout state park system. 	<p>\$9.6 million VPBA</p>
<ul style="list-style-type: none"> Move projects from detailed planning stage to construction stage Provides funding for projects previously authorized for detailed planning to move to construction stage if detailed planning has been completed and if sufficient bond authority is available to meet cash needs. 	<p>\$262.8 million VCBA/VPBA</p>
<ul style="list-style-type: none"> Allow balances from previously authorized bond issuances to fund new projects and supplements to existing projects. Authorizes designated projects to be added to existing capital pools with uncommitted balances. 	
<ul style="list-style-type: none"> Fund two projects at institutions of higher education with revenue bonds 	<p>\$9.7 million 9(C) Bonds \$9.5 million 9(D) Bonds</p>
<ul style="list-style-type: none"> Higher Education Equipment Trust Fund Provided to support workforce development activities of the Virginia Community College System 	<p>\$2 million VCBA</p>

The introduced budget combines new revenues, savings, and spending to yield an unappropriated general fund balance of \$10.8 million . . .

General Fund Only

	FY 2013	FY 2014	Biennial Total
Revised Revenue Forecast			
Prior Year Balance	\$ 976.0	\$ -	\$ 976.0
Additions to Balance	(194.9)	3.5	(191.4)
Revenues	16,416.5	17,037.1	33,453.5
Transfers	405.4	425.3	830.7
Total GF Resources	\$ 17,602.9	\$ 17,465.9	\$ 35,068.9
Proposed Expenditures			
Chapter 3 Base			
Operating	\$ 17,320.4	\$ 17,502.3	\$ 34,822.6
Capital	20.3	-	20.3
Total CH 3 Base	\$ 17,340.7	\$ 17,502.3	\$ 34,842.9
Proposed Amendments			
Operating	\$ (164.6)	\$ 376.0	\$ 211.4
Capital	-	3.7	3.7
Total Proposed Amendments	\$ (164.6)	\$ 379.7	\$ 215.1
Total of All GF Spending	\$ 17,176.1	\$ 17,882.0	\$ 35,058.1
Balance	\$ 426.9	\$ (416.0)	\$ 10.8

*Amounts shown in millions

Summary of budget changes . . .

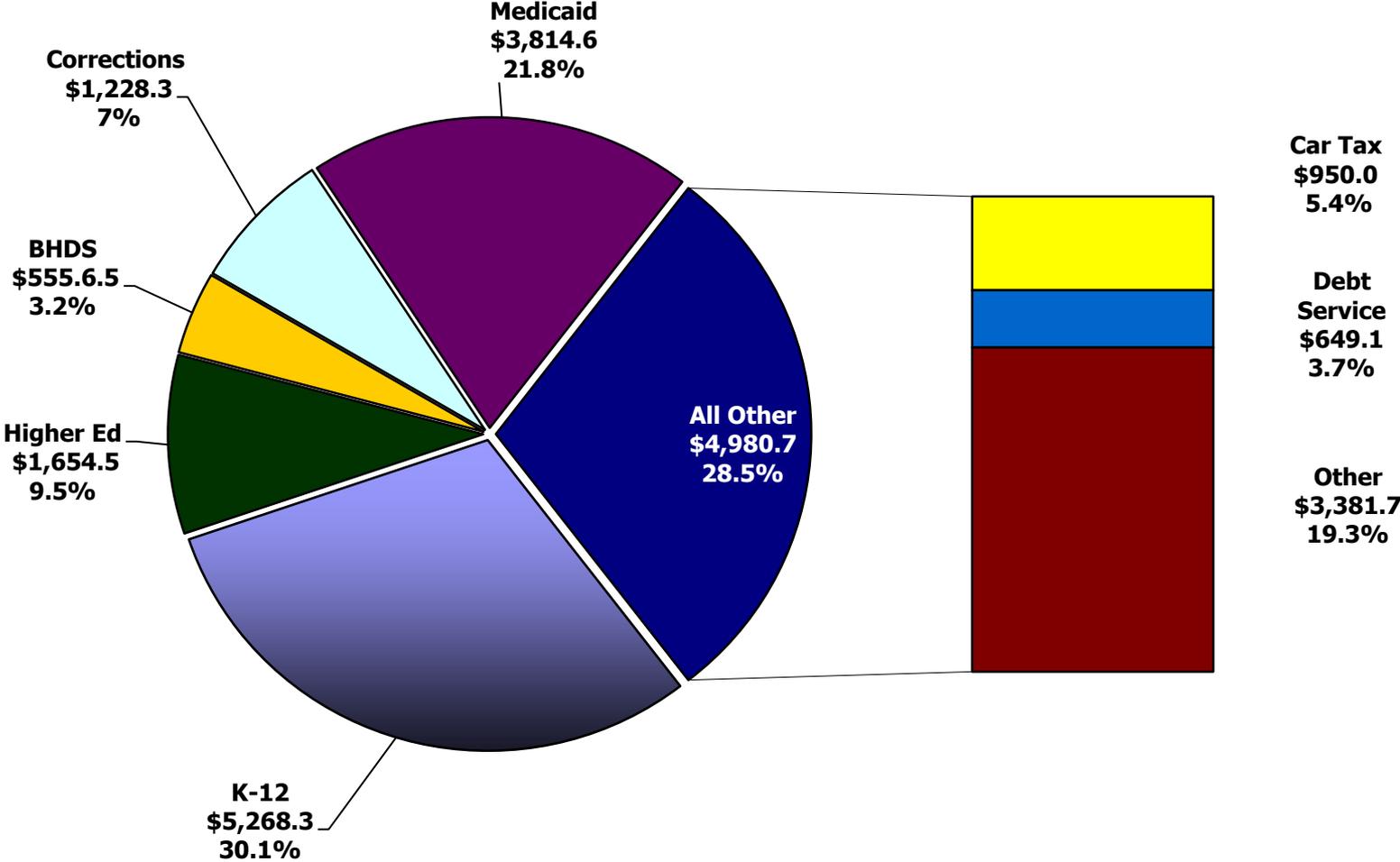
- All required spending has been met without tax increases.
- Savings strategies reprioritize discretionary spending to take advantage of continued government reform efforts.
- Key spending items include:
 - *Supporting core responsibilities;*
 - *Improving financial condition and liquidity;*
 - *Investing in public education;*
 - *Continued investment in higher education;*
 - *Increasing support for transportation;*
 - *Improved support for local governments.*
- The early voluntary payment of \$50 million in FY 2014 helps to reduce the burden in FY 2015 but it also provides a source of liquidity, if needed, to address adverse impacts on Virginia's economy that could occur in the future.
- The \$30 million FACT fund reserve remains available and could grow in value by as much as an additional \$30 million to address the negative impact of potential federal actions.

Appendix

**Summary of Budget Drivers
Summary of Secretarial Changes
For More Details**

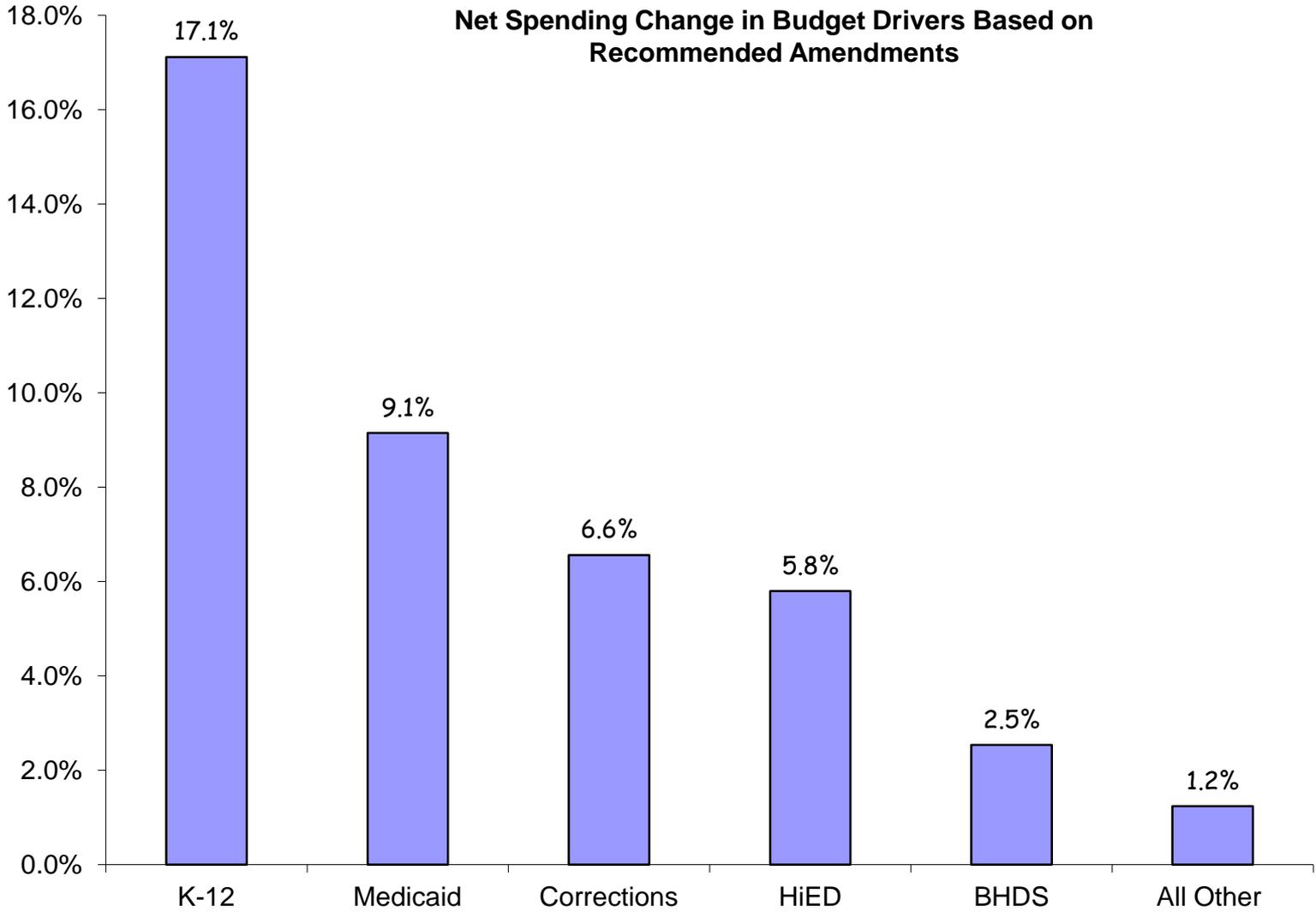
Summary of Changes in Budget Drivers

Five budget drivers make up 71.5 percent of the FY 2014 general fund budget in Chapter 3 . . .

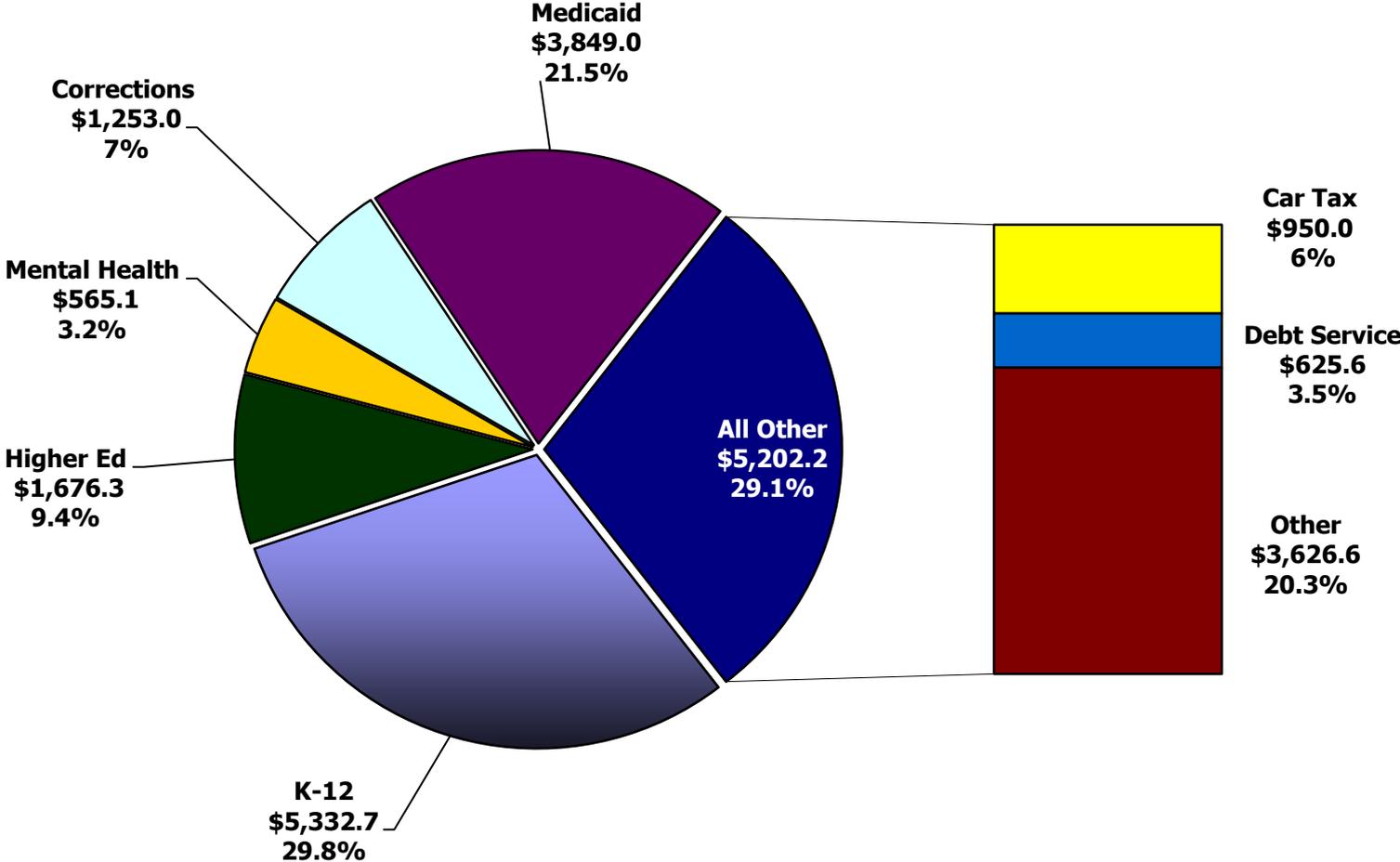


*Amounts shown in millions

Growth in each of the five major budget drivers outpaces growth in all other spending in FY 2014 . . .



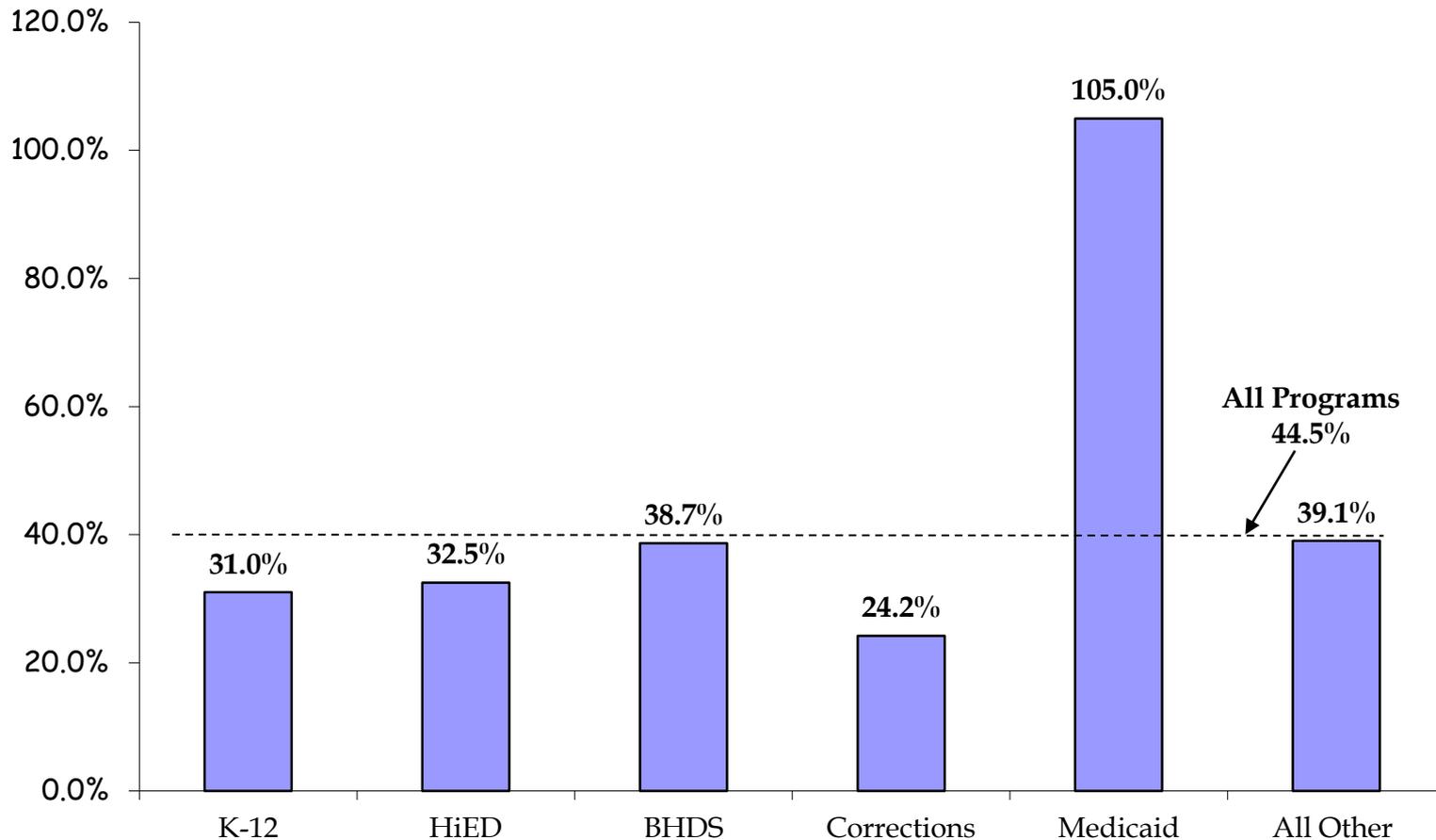
The same budget drivers account for 70.9 percent of the FY 2014 general fund in the introduced budget . . .



*Amounts shown in millions

The net change in general fund spending on budget drivers from FY 2004 to FY 2014 ranges from 24 percent to 105 percent ...

Major Budget Drivers FY2004 - FY 2014



Summary of Changes by Secretarial Area

Most secretarial areas will experience a net increase in general fund operating appropriations . . .

	Chapter 3 Appropriations			Governor's Introduced Budget			Proposed General Fund Change					
	FY 2013	FY 2014	Biennial Total	FY 2013	FY 2014	Biennial Total	FY 2013		FY 2014		Biennial Total	
Legislative Department	\$ 69.5	\$ 69.5	\$ 139.0	\$ 69.5	\$ 69.5	\$ 139.0	\$ -	0.0%	\$ 0.0	0.0%	\$ 0.0	0.0%
Judicial Department	421.8	421.7	843.5	423.1	423.3	846.4	1.3	0.3%	1.6	0.4%	2.9	0.3%
Executive Offices	27.6	26.3	53.9	29.0	31.2	60.2	1.4	5.1%	4.9	18.6%	6.3	10.5%
Office of Administration	640.4	641.1	1,281.4	646.8	643.0	1,289.8	6.4	1.0%	1.9	0.3%	8.3	0.6%
Office of Agriculture and Forestry	49.3	53.0	102.4	49.2	52.9	102.1	(0.1)	-0.3%	(0.1)	-0.3%	(0.3)	-0.3%
Office of Commerce and Trade	166.3	162.4	328.6	164.2	165.6	329.8	(2.1)	-1.2%	3.3	2.0%	1.2	0.4%
Office of Education	7,013.8	7,066.2	14,080.0	6,948.8	7,160.6	14,109.3	(65.0)	-0.9%	94.4	1.3%	29.4	0.2%
Office of Finance	1,857.7	1,922.8	3,780.4	1,852.5	2,032.1	3,884.6	(5.2)	-0.3%	109.3	5.7%	104.1	2.7%
Office of Health & Human Resources	5,105.8	5,212.0	10,317.9	4,987.0	5,220.5	10,207.4	(118.9)	-2.3%	8.4	0.2%	(110.4)	-1.1%
Office of Natural Resources	184.4	91.7	276.1	202.1	95.5	297.5	17.7	9.6%	3.7	4.1%	21.4	7.2%
Office of Public Safety	1,689.9	1,671.1	3,361.0	1,690.6	1,700.4	3,391.0	0.7	0.0%	29.4	1.8%	30.0	0.9%
Office of Technology	7.4	7.4	14.9	7.6	7.3	14.9	0.1	1.6%	(0.1)	-1.2%	0.0	0.2%
Office of Transportation	41.3	41.2	82.4	41.3	41.2	82.4	-	0.0%	-	0.0%	-	0.0%
Office of Veterans Affairs and Homeland Security	10.0	10.1	20.2	10.0	16.9	26.9	-	0.0%	6.7	66.5%	6.7	25.1%
Central Appropriations	35.2	105.7	140.9	34.3	218.3	252.6	(0.8)	-2.4%	112.5	106.4%	111.7	44.2%
Independent Agencies	-	-	-	-	-	-	-	0.0%	-	0.0%	-	0.0%
Total Operating Appropriations	\$ 17,320.4	\$ 17,502.3	\$ 34,822.6	\$ 17,155.8	\$ 17,878.3	\$ 35,034.1	\$(164.6)	-1.0%	\$ 376.0	2.1%	\$ 211.4	0.6%

*Amounts shown in millions

Education Secretariat accounts for the majority of the increase in position levels in the proposed budget for FY 2014 . . .

Secretarial Area	FY 2013 FTE (CH 3)	Proposed Net Changes FY 2014*
Administration	859.5	1.0
Agriculture and Forestry	799.0	-6.0
Commerce and Trade	1,659.0	4.0
Central Appropriations	2.0	-2.0
Education	56,417.6	286.4
Executive Offices	436.0	71.0
Finance	1,254.0	25.0
Health and Human Resources	16,556.8	45.0
Independent Agencies	1,674.1	0.0
Judicial	3,361.7	0.0
Legislative	607.0	0.0
Natural Resources	2,178.0	-2.0
Public Safety	20,350.5	-127.6
Technology	299.0	0.0
Transportation	9,798.0	-14.0
Veterans Affairs & Homeland Security	682.0	0.0
Grand Total	116,934.2	280.8

*Two layoffs proposed in the Department of Taxation; other layoffs associated with the Department of Juvenile Justice's closure / repurpose of correctional facilities are possible.

Positions Eliminated
-1,185.6

New Positions Proposed
1,466.4

Net Change
280.8

Note: Positions eliminated and new positions proposed include positions being transferred to and from agencies being eliminated.

For More Details About Governor McDonnell's Introduced Budget

including specific language amendments, please
refer to the Department of Planning and Budget's
Web site at:

<http://dpb.virginia.gov/>