

RESOURCES

The Governor's introduced budget included a downward revision of \$1,282.4 million in GF tax revenues to reflect the current expectation that economic weakness will continue through fiscal year 2003, and an appreciable rebound will not occur until fiscal year 2004. The Governor's revised forecast assumes economic growth rates of 0.8 percent in fiscal year 2003 and 4.6 percent in fiscal year 2004. (Revenue declined by 3.8 percent in fiscal year 2002).

Resource amendments adopted by the General Assembly increase the estimate of available revenues by \$106.0 million. Of this total, the economic-driven revenue estimates are increased by \$18.0 million and are based on actual year-to-date performance of three minor revenue sources (insurance premium, public service, and recordation taxes).

Beyond the economic driven revenue adjustments, a number of other resource increases relate to legislation passed by the General Assembly; increasing the retail price of liquor sold in ABC stores; modification of several of the Governor's proposals; and, capturing unobligated balances.

The adopted budget more than doubles the unappropriated balance, or "cushion" by increasing it to \$14.5 million. This is in addition to the Compensation/Revenue Reserve Fund.

Increased Resources

- Increases the general fund revenue forecast by \$14.1 million in FY 2003 and \$3.9 million in FY 2004 based on actual collection performance in insurance premium and utility consumption taxes and recordation taxes from home sales and refinancings.

- Reduces legislative agency budgets by \$9.7 million over the biennium, with balances to be transferred to the general fund.
- Accepts Governor Warner's proposed adjustment of \$8.9 million reflecting the Global Settlement Fund from national investment firm litigation.
- Adjusts collection assumptions of the Governor's proposed tax amnesty program and tax compliance initiative to generate \$7.7 million.
- Increases the Governor's recommended increase of ABC liquor prices from 2.6 to 5.0 percent to generate \$12.3 million.
- Reflects \$19.0 million from legislation passed by the General Assembly, including eliminating the subtraction for foreign source income and assessing court fees to cover the cost of trooper court time and court interpreters.
- Increases the forecast of Medicaid fraud and abuse collections by \$4.5 million in FY 2003 and \$0.7 million in FY 2004, based on aggressive efforts by the Office of the Attorney General.
- Captures \$3.5 million from the FY 2004 unbudgeted balance of the Clerk's Technology Fund.
- Captures \$2.3 million from unbudgeted balances in the Department of Aviation.
- Captures \$1.5 million in balances from the E-911 fund.
- Captures roughly \$11 million from other projected balances and technical corrections.

PUBLIC EDUCATION

Provides a net increase of over \$92.0 million in state funding for public education over the original appropriation in Chapter 899.

The introduced budget proposed an additional \$64.8 million in state funding for public education. The conference committee report includes an additional \$27.3 million in state funds for public education as detailed below.

Teacher Salary Increase

- Funds \$27.5 million GF for the state share of a teacher salary increase of 2.25 percent, effective January 1, 2004. Funds represent an incentive payment that covers the full cost of the state share.
 - Consistent with compensation for state employees, language provides that the Governor may consider reducing the salary increase in the event of a downward revision in the general fund revenue estimate. Should the salary increase be reduced, language requires that \$8.0 million GF be transferred to the SOQ account for compensation supplements to ensure that no reduction occurs in public education funding.

Block Grant

- Shifts \$6.8 million GF from the new Student Achievement block grant to help fully fund the salary increase. Allows school divisions flexibility to fund dropout prevention services as well as the other stated uses with the remaining \$10.1 million GF Student Achievement block grant.

Literary Fund

- Restores \$10 million to the Literary Fund for the school construction interest rate subsidy program for projects on the First Priority Waiting List.

Other Accounts

- Reduces second year general funds for: Project Discovery by \$49,060, the Southwest Virginia Public Education Consortium by \$107,700, and the Southside Virginia Public Education Consortium by \$82,750. Eliminates state general funds in the second year for: the Western Virginia Public Education Consortium (\$63,750) and Migrant Education programs (\$300,000).
- Requires the two school divisions that participate in the small school division assistance program to certify to the Superintendent of Public Instruction that they have entered into certain cost-saving arrangements with other school divisions.

Department of Education

- Restores \$2.8 million GF in order to fund three separate history SOLs in 2003-2004 (as opposed to a single cumulative test in grade 8) and restores \$425,000 for the algebra readiness diagnostic test.

Other Actions

- Increases the cap on enrollment for funding Governor's Schools from 1,275 students to 1,300 students at a cost of \$21,171 GF.

HIGHER EDUCATION

Tuition and Fee Policy

- Revises the tuition policy for 2003-04 limiting increases for in-state undergraduate students. The revised policy allows the annualization of the spring 2003 mid-year tuition surcharges and places a five percent cap on additional tuition increases for in-state students, exempts from the cap tuition needed to provide the nongeneral fund share of salary and fringe benefit increases.

Financial Aid

- ***Tuition Assistance Grant Program.*** Restores \$2.5 million GF in the second year in order to maintain the awards at FY 2003 levels of \$2,217 for undergraduates and \$1,700 for graduates. The introduced budget would have reduced the undergraduate award to about \$2,075 and the graduate award to \$1,500.
- ***Student Financial Assistance.*** Provides an additional \$4.5 million GF the second year for student financial assistance. The additional funding is provided to maintain current percent of “financial aid need” that is met by the institutions of higher education.

Support for Military Leadership Programs

- Restores \$546,986 GF for the Virginia Women’s Institute for Leadership program in FY 2004.
- Restores \$686,242 GF in the second year for the Virginia Corps of Cadets at Virginia Tech and Mary Baldwin College.

Virginia Tech Cooperative Extension

- Provides \$1.1 million GF the second year to restore 21 extension agents and 4 extension specialists throughout the state.

Out-of-State Capital Fee

- Institutes a fee for out-of-state students – \$50 per year for full-time students at a four-year institution and \$45 per year for full-time students at a two-year institution. The fee is expected to generate \$2 million a year to offset a portion of the debt service on projects financed through the Virginia College Building Authority.

Public Service and Research Centers

- Reduces general fund support for research and special purpose centers at institutions of higher education by \$2.3 million GF the second year. Language in the adopted budget indicates that it is the intent of the General Assembly that general fund support for the centers not be continued indefinitely, but that institutions secure nongeneral funds for such activities.

General Fund Reductions – Special Purpose and Research Centers	
	<u>FY 2004</u>
Christopher Newport University	(\$39,960)
College of William and Mary	(160,147)
Virginia Institute of Marine Science	30,000
George Mason University	(127,125)
Longwood University	(34,389)

Old Dominion University	(290,103)
University of Virginia	(592,750)
Virginia Commonwealth University	(925,759)
Virginia Tech	
	<u>(135,125)</u>
Total	(\$2,275,358)

- **Decentralization Language Amendments.** Provides a comprehensive package to expand the decentralization initiatives in higher education and provide more accountability for institutions participating in decentralization pilot programs.

OTHER EDUCATION

- Restores \$100,000 GF and 2.0 positions for the Virginia Commission for the Arts in order to provide the necessary administrative functions to ensure preservation of federal funding.
- Reverses the proposed consolidation of the Museum of Natural History with the Science Museum of Virginia, leaving the budget for the Museum of Natural History within the Natural Resources Secretariat.
- Institutes a mandatory \$1 license registration fee to support activities and expenses associated with the Jamestown 2007 Commemoration. Revenues in excess of \$5 million will be used for open space preservation. The fee sunsets in 2008.

CAPITAL OUTLAY

- Provides for limited use of state-supported debt from the Virginia College Building Authority to supplement the Rogers Hall Renovation project (\$5.2 million) at the College of William

and Mary and Norfolk State University's hospital property acquisition (\$0.5 million).

- Includes language to allow three institutions – James Madison University, Longwood University, and Norfolk State University – to explore alternative financing arrangements for campus facilities.
- Authorizes additional \$64.1 million in bonds and \$6.0 million NGF from private gifts for restoration of the State Capitol, along with authorization to proceed with restoration of other buildings in Capitol Square. Language requires evaluation of the feasibility of using public-private partnership to renovate the Old Finance Building and Washington Building.

HEALTH AND HUMAN RESOURCES

The conference committee report provides an additional \$15.9 million GF for health and human resources over the introduced budget. The introduced budget provided a net increase of \$20.5 million GF over the appropriation in Chapter 899.

Restore Funding for Health Care Providers

- Redirects \$30.0 million GF and \$30.2 million NGF from the proposed Protecting Access to Health Care (PATH) program to provide inflation adjustments to payments for nursing homes, hospitals, and managed care organizations and to restore funds for other health providers that were reduced in the introduced budget.
- Provides \$16.9 million GF and \$17.9 million NGF to provide a 4.7 percent increase for the costs of managed care organizations

to provide health care services under the Medicaid and FAMIS programs.

- Provides \$11.1 million GF and \$11.1 million NGF to fully restore a 5.1 percent increase for the cost of direct care services provided in nursing homes and to provide a 1.5 percent increase for the cost of indirect care services.
- Provides \$5.4 million GF and \$5.4 million NGF to provide a 5 percent increase for private inpatient hospital services. This fully restores the inflation adjustment that was eliminated in the introduced budget and provides a slight increase for the reimbursement of these services.
- Provides \$2.0 million GF and \$2.0 million NGF to restore one-half of the reduction to the pharmacy dispensing fee. The pharmacy dispensing fee will be \$3.75 per prescription per month, instead of \$3.25 per prescription as contained in the introduced budget.
- Provides \$2.5 million GF and \$1.5 million NGF to restore funding reductions for specialized care in nursing facilities and durable medical equipment providers, and provide modest inflationary increases for personal care services, assisted living facilities, and adult day health care services.

Services for Mentally and Physically Disabled Individuals

- Provides \$3.5 million GF and \$3.5 million NGF to add 175 new mental retardation waiver slots and reduce the waiting list for services.
- Provides \$4.3 million GF to restore funding to the community services boards. Of the increase, \$2.0 million is earmarked for

substance abuse services in FY 2003 to ensure that federal funding for substance abuse services will not be reduced.

- Provides \$798,789 GF to restore direct services for persons with physical disabilities.
- Provides \$475,000 GF to restore direct services at mental retardation training centers that were eliminated in the October 2002 reductions.

Other Spending

- Provides \$1.5 million GF to restore services for community action agencies, Area Health Education Centers, the Comprehensive Health Investment Program (CHIP) of Virginia, and Healthy Families.
- Provides \$1.1 million GF to restore funding for safe drinking water projects.
- Provides an increase of \$500,000 GF to fund the housing and treatment costs of violent sexual predators that are civilly committed for treatment.

Targeted Savings

- Captures \$3.9 million in savings by encouraging the Department of Medical Assistance to continue pursuing federal revenue maximization efforts in FY 2004.
- Reduces spending by \$1.0 million GF in the Medicaid program by requiring the Department of Medical Assistance Services to work with pharmacists and physicians to obtain savings in the

pharmacy program through greater use of over-the-counter non-sedating antihistamines.

- Achieves \$1.0 million GF in savings by requiring local teams to use Medicaid-funded services when they are available for the appropriate treatment of children and youth under the Comprehensive Services Act.
- Saves \$750,000 GF by requiring the Department of Medical Assistance Services to work with public hospitals serving disproportionate numbers of indigent clients to purchase pharmaceuticals at a discount from the federal 340B drug program. This initiative results in state Medicaid savings but also savings to hospitals on the purchase of their non-Medicaid outpatient pharmaceuticals.

Mental Health Restructuring

- Adds language to the Governor's mental health restructuring initiative (1) requiring continued collaboration, (2) addressing the care needs of individuals discharged or diverted from state facility care, (3) allowing funding transfers to expand community-based mental health, mental retardation, and substance abuse services, (4) mandating that identified savings be retained in the same geographic service area to enhance and expand community based services, (5) providing "bridge" funding to facilitate the transition of patients to community care, (6) ensuring employment safeguards for affected facility employees, and (7) clarifying that the state retains its financial commitment to community-based services.

COMPENSATION AND GENERAL GOVERNMENT

Compensation

- Provides \$66.0 million (GF) the second year for a 2.25 percent salary increase for public employees, including: (1) state employees and higher education faculty on November 25, 2003; (2) state-supported local employees -- including Constitutional Officers and their employees -- on December 1, 2003; and (3) public school teachers effective January 2004.
- Language authorizes the Governor to use any portion of the appropriation provided for the base salary increase in to offset a downward revision in the general fund revenue estimate.

General Government

- Reduces Compensation Board funding for state income tax processing by \$1.1 million (GF) the second year by eliminating payments for such activities to Commissioners of the Revenue and Treasurers in localities with populations of 100,000 or more.

Legislative Department

- Transfers legislative balances to the general fund, reflecting spending reductions totaling \$9.7 million.
- Reduces general fund spending for the Code Commission by \$268,000, reflecting savings actions. Also switches the fund source for the Virginia Housing Study Commission producing general fund savings of \$153,180 in the second year.

- Additional reductions of \$934,000 in legislative agencies are included, resulting in overall reductions to the legislative branch of about 10 percent.

Judicial Department

- Restores \$601,000 GF for operation of district courts.
- Provides \$104,000 GF for the judicial performance evaluation pilot project.
- Increases by \$2 (from \$2 to \$4) in the Intensified Drug Enforcement Jurisdictions Act (IDEA) fee, effective May 1, 2003. One dollar of this increase had been included in the introduced budget.

Statewide Executive Offices

- Eliminates funding for the Virginia Liaison Office.
- Restores \$1.0 million GF and 20 positions for the Office of the Attorney General. Also provides \$300,000 GF for 14 positions to expand the Medicaid Fraud Control Unit. This is a revenue generating activity; additional positions will result in increased general and nongeneral fund revenues through Medicaid fraud recoveries.

ECONOMIC DEVELOPMENT

Agriculture

- Restores \$1.0 million GF to the meat and poultry inspection program and \$75,000 to support agriculture education specialists.

Housing

- Restores \$500,000 GF the second year for the homeless intervention program.

Economic Development Consolidation

- Requires the Secretary of Commerce and Trade to develop a plan to consolidate the Departments of Business Assistance and Minority Business Enterprise, the A.L. Philpott Manufacturing Extension Partnership, and the Virginia-Israel Advisory Board. The estimated savings from the consolidation are \$500,000.

Center for Innovative Technology

- Directs the Authority to recover a portion of its costs related to increasing Virginia's share of federal R&D moneys. CIT may recover up to 7.5 percent of the value of a grant or award made to an institution of higher education or industry if there is a signed memorandum of understanding between CIT and the recipient and if CIT played a direct role in obtaining the grant for the recipient.

NATURAL RESOURCES

Department of Conservation and Recreation

- Restores \$1.4 million for Soil and Water Conservation Districts.
- Restores \$1.3 million for state parks, returning all parks to normal operating hours; and
- Provides \$1.0 million NGF for the agricultural best management practices cost-share program.

Department of Environmental Quality

- Restores \$2.5 million NGF for the local litter control and recycling grants.
- Restores \$225,000 NGF for Elizabeth River monitoring and \$106,000 NGF for citizen water quality monitoring.

Marine Resources Commission

- Restores \$1.2 million GF for the Marine Patrol which was eliminated in the introduced budget (related legislation to increase saltwater fishing licenses failed).
- Language provides guidance to VMRC on dredging permit royalties, and funds water quality projects through an anticipated \$2.4 million in dredging royalties.
- Extends the moratorium on submerged use fees and royalties until July 1, 2004 pending a study by the Chesapeake Bay Commission.

PUBLIC SAFETY

Adult Corrections

- Restores \$2.9 million GF and 100 correctional officer positions for prison security.
- Restores \$832,042 GF for correctional education at Red Onion, Wallens Ridge, and Sussex I State Prisons.
- Restores \$775,000 GF and 15 psychologist positions to support existing prison treatment programs.

- Increases the charge for probationers assigned to diversion centers by \$10 per night resulting in a savings of \$1 million for the general fund.
- Authorizes a pilot community corrections program to increase the placement of selected local-responsible offenders in local sentencing alternatives (with a Compensation Board per diem of \$4 instead of \$8 -- resulting in a \$1 million savings).
- Provides \$729,115 GF for perimeter security for the sexually violent predator program. Funding for treatment is included in the budget for DMHMRSAS (SB 1149 and HB 2445).

Department of State Police

- Restores \$1.1 million GF for Medflight helicopter operations, and eliminates the proposed NGF transfer from the Rescue Squad Assistance Fund in the second year.

Department of Alcoholic Beverage Control

- Eliminates the proposed plan to permit private sales.
- Reduces the appropriation for ABC law enforcement and regulatory activities by 10 percent and transfers savings of \$1.6 million to the general fund.
 - Directs the Secretary of Public Safety to prepare a plan for to merge ABC enforcement activities into the Department of State Police.

Department of Criminal Justice Services

- Provides level funding in FY 2004 for Aid to Localities with Police Department (HB 599), resulting in savings of \$5.5 million GF.

TRANSPORTATION

Restoring DMV Services

- Reopens the 12 customer service centers closed by the Governor's October 2002 savings plan. Reopens all customer service centers on Wednesdays.
- Restores central office positions to process customer transactions made at the service centers.
- Reopens two closed truck weigh stations in Loudoun and Frederick Counties.
- Waives Internet credit card fee for customers who conduct DMV business on-line.
- Provides \$1.6 million in FY 2003 and \$15.8 million in FY 2004 to support these services by reducing general fund transfers and increasing user fees. The fee increases are: increasing drivers licenses and identification card fees by five dollars (for five-year life of license/id) to generate \$10.6 million over the biennium; increasing the license reinstatement fee \$15 (\$10 of which was included in the introduced budget) to generate \$4.0 million.
- Restores reductions to DMV payments to local governments through the distribution of rental vehicle taxes. The introduced

Budget Bill reduced these amounts by \$1.6 million and \$2.1 million in FY 2003 and FY 2004, respectively.

Transportation Policy

- Requires a minimum of 50 percent of all funds apportioned to the Commonwealth through the federal Bridge Replacement and Rehabilitation Program be programmed for bridge projects and allocated for such purposes each year.
- Directs VDOT to allocate any transportation funds required to support debt service on FRANs issued in support of VTA projects "off-the-top" prior to allocations to the primary, secondary and urban systems.

Motor Vehicle Dealer Board

- Restores \$200,000 to the Motor Vehicle Transaction Recovery Fund, and preserves the Fund to protect Virginia consumers.