

Resource Changes for 2002-2004

HB/SB 29 includes a net increase of \$365.5 million in general fund resources available for appropriation during the remainder of the 2002-04 biennium. These changes, combined with the \$17.6 million unappropriated balance from last session, provide \$383.1 million in unobligated funds during FY 2004. HB/SB 29 proposes increased spending of \$24.7 million, leaving a total of \$358.4 million to be carried forward into the next biennium. The \$358.4 million is included as a beginning balance in HB/SB 30.

Additional General Fund Resources Available for Appropriation in FY 2004 (\$ in millions)			
	Original Amount	Revised Amount	Difference
June 30, 2003 Balance	\$ 0.0	\$ 241.6	\$ 241.6
Adjustments to the Balance	16.6	(242.1)	(258.7)
Official Revenue Estimates*	11,366.2	11,592.0	225.8
Transfers	<u>824.7</u>	<u>981.5</u>	<u>156.8</u>
Additional GF Resources Available for Appropriation	\$12,207.5	\$ 12,573.0	\$ 365.5
Plus: Unobligated Balance (Ch. 1042)			17.6
Less: HB/SB 29 New Spending			<u>(24.7)</u>
HB/SB 29 Carry Forward Balance			\$ 358.4

* Revised Official Revenue Estimate amount assumes approval of Governor's tax proposal.
Without tax restructuring, the revenue estimate increases to \$11,602.3

Changes in the Balance

HB/SB 29, as introduced, reflects a balance of \$241.6 million at the end of FY 2003. This amount contains roughly \$151.0 million of agency operating balances. The introduced budget proposes reappropriating \$142.2 million of these balances, along with \$24.5 million for capital projects already under

contract. These amounts, combined with a \$49.0 million set-aside for Hurricane Isabel costs and a \$23.6 million balance reduction reflecting the accelerated sales tax receipts owed to transportation, produce a net decrease in balances of \$17.1 million.

Changes in Revenue

The FY 2004 revenue forecast has been adjusted upward by \$280.1 million as a result of the ripple effect from last year's \$55.2 million revenue surplus and the continued strengthening of economic conditions. Several negative adjustments described below produce a net general fund revenue increase of \$225.8 million.

- **Increased Revenue.** Expected increases in corporate income tax collections and recordation tax receipts comprise the bulk of the change in the revenue forecast. Corporate income, which is highly variable, is estimated to exceed the forecast by \$100.0 million (\$112.0 million without the effect of the Governor's tax proposal). Recordation tax receipts are projected to exceed the estimate by \$104.8 million.

Net individual income tax is estimated to grow slightly greater than the official forecast, resulting in approximately \$24.9 million in additional revenue. Growth is being driven primarily by stronger collections in non-withholding taxes, which reflect gains in the stock market and a stronger business climate. Withholding tax collections, which comprise the bulk of income tax collections, continue to show improvement, but forecasted growth in FY 2004 is expected to be around 5.9 percent, somewhat short of the 6.5 percent December 2002 official forecast.

- **Decreased Revenue.** Offsetting the economic revenue increases are a number of downward adjustments in other sources totaling approximately \$60.0 million. The largest revenue loss results from the Governor's proposal to conform Virginia's tax code to federal tax law (under §179 of the Internal Revenue Code) pertaining to business expensing for equipment purchases. The fiscal impact of this proposal is a loss of \$11.7 million in FY 2004.

Other downward adjustments include the loss of \$16.5 million from implementation of the \$10.00 recordation fee approved by the 2002 General Assembly. In implementing this fee, Clerks of the Court interpreted that the fee should apply only to new recordings. As a result,

recordings associated with mortgage refinancings were not assessed the \$10.00 fee.

Finally, the success of the tax amnesty program, which resulted in collections of \$44.7 million above the estimate of \$44.8 million, will negatively impact normal, on-going compliance efforts (some funds which would have been captured through normal compliance were remitted to take advantage of amnesty). As a result, the revenue estimate for compliance has been lowered by roughly \$9.4 million.

Estimate of General Fund Taxes By Source in FY 2004				
(\$ in millions)				
	Estimated FY 2004	Estimated % Growth	Thru November % Growth	Change From FY 2003 Official
Net Individual	\$7,236.4	6.8%	7.5%	\$24.9
Corporate	415.9	21.1%	83.7%	100.0
Sales	2,457.2	5.2%	5.4%	(2.8)
Insurance	357.8	7.4%	5.0%	21.7
Public Service	84.4	(7.5%)	(12.8%)	0.6
All Other	<u>1,040.3</u>	5.3%	1.9%	<u>81.4</u>
Total Revenues	\$11,592.0	6.7%	7.5%	\$225.8

Changes in Transfers

Several recommended adjustments increase transfers by \$156.8 million in FY 2004. The largest adjustment is \$240.7 million associated with the flexible federal grant monies Virginia received as part of the 2003 Federal Jobs and Growth Tax Relief Act. Offsetting the federal grant money is a proposal to eliminate the planned withdrawal of \$128.5 million from the Revenue Stabilization Fund. Under this proposal, the Revenue Stabilization Fund balance would be approximately \$260.0 million at the end of FY 2004.

Other transfers include \$2.0 million in increased ABC profits, and \$14.7 million in increased Lottery profits. Finally, the budget proposes reducing the

planned transfer from the Department of Motor Vehicles (DMV) to the general fund from \$11.5 million to \$9.2 million and forgiving DMV's FY 2003 Treasury loan of \$6.0 million. Under this proposal, DMV should have sufficient funding for operating expenses. The following table details the changes in balances, revenues and transfers for FY 2004.

General Fund Resource Changes Since April 2003	
(\$ in millions)	
<u>Balance Adjustments:</u>	<u>2002-04</u>
Undesignated Balance 6/30/03	\$ 241.6
Operating Reappropriation	(142.2)
Hurricane Isabel Costs	(49.0)
Capital Reappropriation	(24.5)
Acceleration of Sales Tax for Transportation	(23.6)
Technical Adjustment to Acct. for Anticipated Balance	(20.4)
Natural Disaster Reserves	(5.4)
Governor's Vetoes in 2003	(0.7)
Other Adjustments	(0.5)
DMV Transfer	6.0
Tuition Assistance Grant Balance	1.3
Shell Building Repayment	<u>0.2</u>
Total Additional Balances	(\$17.1)
<u>Revenue Adjustments:</u>	
December Tax Re-forecast	\$ 280.1
Advance Sale of Tobacco Stamps (Tax Proposal)	4.0
Recordation Fee	(16.5)
Federal Tax Conformity (Tax Proposal)	(11.7)
Tax Compliance	(9.4)
Medicaid Recoveries	(5.8)
Reduce NGF Interest Earnings Retained	(5.3)
National Guard Travel (Tax Proposal)	(2.6)
Reduction in 40% share of Tobacco Settlement Allocation	(2.5)
Department of Corrections INS Revenues	(2.0)

IRS Debt Setoff	(1.8)
Two for Life DMV Fee	(1.2)
Treasury Fees	(0.9)
State Police Med-Flight Recovery	(0.2)
Charitable Gaming	0.8
MCI Revenue	0.6
Vendor Registration	0.2
Other Revenue	<u>0.1</u>
Total Revenue Adjustments	\$ 225.8
<u>Transfers:</u>	
Federal Fiscal Grant Relief	\$240.7
Eliminate Revenue Stabilization Fund Withdrawal	(128.5)
Tax Amnesty	44.7
Lottery Profits	14.7
Reduce DMV Transfer	(2.3)
DMV - Reverse Anticipated Loan Repayment to GF	(6.0)
Technology Savings	(7.9)
ABC Profits	2.0
IDEA Fund	(1.2)
Court Debt Collection	0.9
COVANET Savings	0.7
Game Protection Fund	(0.7)
Local Sales Tax Compliance	(0.2)
Other Adjustments	<u>(0.1)</u>
Total Transfer Amendments	\$156.8
Total Additional GF Resources Available for Appropriation	\$365.5

Legislative

No actions in HB29/SB29.

Judicial

- **Circuit Courts**
 - *Criminal Fund.* Provides \$1.4 million GF for FY 2004 for the cost of appointing attorneys to represent an increased number of indigent defendants in criminal cases, and other increased costs associated with the Criminal Fund. Expenditures for the fund are expected to total \$74.1 million in FY 2004.

Executive

- **Office of the Attorney General**
 - *Division of Debt Collection.* Includes language directing that the division deposit \$1.6 million as revenue to the general fund by June 30, 2004, from receivables collected on behalf of state agencies.

Administration

- **Compensation Board**
 - *Fund Jail Reimbursement Shortfall.* Proposes an additional \$1.3 million GF in FY 2004 to offset shortfalls in the reimbursements made by the Commonwealth to localities for housing inmates in local and regional jails and jail farms. This additional funding is based upon a revised inmate population forecast and does not

restore the reductions in per diem reimbursements approved by the 2003 Session.

- **Department of General Services**
 - *Expand Virginia Partners in Procurement Program.* Provides for the issuance of a \$5.0 million treasury loan to the department to support the continued expansion of the spend management program. This program attempts to better leverage state spending by aggressively negotiating better contracts for the supply of goods and services to the Commonwealth. The treasury loan is to be repaid from rebates or surcharges associated with these spend management contracts.
- **State Board of Elections**
 - *Increase Reimbursements to Localities for Salary Adjustments.* Recommends an additional \$60,000 GF to adjust the salaries of general registrars and local boards of election. The adjustments reflect local population changes.

Commerce and Trade

No actions in HB29/SB29.

Public Education

- **Direct Aid to Public Education**
 - *Technical Changes to Direct Aid Funding.* Increases Direct Aid to Public Education by a net \$3.2 million GF to reflect technical

adjustments to Standards of Quality, categorical, and incentive-based funding due to the following:

- Updated Enrollment. FY 2004 enrollment projections have been adjusted downward from Chapter 1042 by 620 students (based on a September 30, 2003 child count) for a reduction of \$2.4 million GF.
- Revised Sales Tax Revenue Projections. The FY 2004 estimate of sales tax revenues returned for public education (one cent) has been increased by \$3.4 million from the amount contained in Chapter 1042.
- Other Updates. Funding is increased by \$2.2 million GF in FY 2004 to reflect actual participation in remedial summer school, incentive-based programs such as Primary Class-size K-3 and At-Risk four-year-olds, and categorical programs such as Special Education, Regional Tuition, and Homebound.
- *Distribute Additional Lottery Proceeds.* Increases Direct Aid funding by a net \$9.9 million GF to reflect updated estimates of Lottery proceeds for fiscal years 2003 and 2004. (An additional \$15.2 million is transferred to support Basic Aid costs.)

Higher Education

- **State Council of Higher Education for Virginia**
 - *GEAR-UP Match.* Provides \$1.1 million GF in FY 2004 as the third year of a five-year state match for the federal Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) grant. Through this five-year grant, Virginia will receive \$10.5 million in federal funds to improve college entrance rates among high school students that historically have had low college participation rates. Without these funds, the program's federal funding will be in jeopardy.

- *Space Grant Consortium.* Restores \$170,000 GF in scholarships for students pursuing degrees in math and science-related fields. State funds are used to leverage federal and private grants to support the program’s educational activities.
- *TAG Balances.* Captures \$1.3 million GF in balances due to lower than anticipated participation in the Tuition Assistance Grant Program. This action is reflected in the revenue adjustments under the category of “Additions to Balance” on the first page of HB/SB 29.

Other Education

No actions in HB29/SB29.

Finance

- **Department of Accounts**
 - *Eliminate “Rainy Day Fund” Transfer.* Eliminates a previously approved transfer of \$128.5 million from the Revenue Stabilization Fund in FY 2004.
- **Treasury Board**
 - *Revise Debt Service Funding.* Proposes a reduction of \$14.2 million GF in debt service. The reduction is a result of the refunding of outstanding debt and changes in the draw schedules for previously approved bond projects.

Health and Human Resources

- **Comprehensive Services For At-Risk Youth and Families (CSA)**

- *Mandatory Special Education and Foster Care Payments.* Provides \$1.4 million GF in FY 2004 to fully fund enrollment growth and expenditure increases for children and adolescents who are mandated to receive services through the CSA program.
- *Enhanced Medicaid Revenue.* Reduces \$2.5 million GF and adds \$2.5 million NGF in FY 2004 as the result of enhanced revenues received in the spring of 2003 when Congress provided states with fiscal relief for rising Medicaid costs. This proposal simply substitutes enhanced federal Medicaid funding for state general funds that were previously budgeted for CSA children receiving Medicaid-funded services.
- **Department of Health Professions**
 - *Leverage Medicaid for CNA Regulatory Program.* Adds language allowing the department to transfer fees paid by certified nurse aides (CNAs) to the Department of Medical Assistance Services for the purpose of drawing down additional federal reimbursement, if permitted under federal law. These funds would support the CNA regulatory program.
- **Department of Medical Assistance Services (DMAS)**
 - *Medicaid Utilization and Inflation.* Provides \$142.9 million GF and \$119.7 million NGF in FY 2004 to fully fund expected increases in enrollment and costs in the Medicaid program. Projected growth in Medicaid can be attributed to increasing enrollment, especially among children and families, and rising costs for nursing home placements, managed care payments, mental retardation waiver services, and prescription drugs. The additional appropriation includes the cost of reverting to the Department’s previous policy of reimbursing Medicaid providers approximately one-week after claims are received. The Department began lagging payments by one week when it began implementation of a new information system in July 2003.
 - *Reimburse Federal Government for Hospital Claim Overpayments.* Provides \$25.1 million GF in FY 2004 to reimburse the federal government for overpayments the state Medicaid program made to hospitals in recent years for services provided to individuals dually eligible for Medicare and Medicaid. The department is currently negotiating with hospital officials to assure recovery of the overpayments. While the Governor’s proposed 2004-06 budget

assumes \$48 million for the recovery of the excess payments in FY 2005, federal Medicaid officials require repayment by the end of FY 2004.

- ***Fund Involuntary Mental Commitments.*** Adds \$236,382 GF in FY 2004 to fully fund hospital and physician services resulting from involuntary mental commitments.
- ***FAMIS Plus Caseload Growth.*** Provides \$5.1 million GF and \$8.8 million NGF in FY 2004 for caseload growth of Medicaid eligible low-income children in families with incomes between 100 and 133 percent of the federal poverty level. Funding for these children is matched by the federal government at the same rate as the Family Access to Medical Insurance Security (FAMIS) program (about 65 percent). Consequently, these children are enrolled in what is termed the FAMIS Plus program. The number of low-income children served through FAMIS Plus has increased by about 12,000 since September 2002 as a result of efforts to streamline enrollment in the FAMIS and FAMIS Plus programs.
- ***FAMIS Caseload Growth.*** Adds \$1.1 million GF and \$1.0 million NGF in FY 2004 for caseload growth in FAMIS, the state children's health insurance program. The number of low-income children served through FAMIS has increased by about 5,500 since September 2002 as a result of efforts to streamline enrollment in the FAMIS and FAMIS Plus programs.
- ***Restore General Fund Support for Unrealized Revenue Maximization Efforts.*** Restores \$11.2 million GF and decreases \$11.2 million NGF to restore general funds for revenue maximization initiatives that the Department thought might succeed based on their success in other states, but that failed to materialize.
- ***Adjust Medicaid Collection of Enhanced Federal Fiscal Relief.*** Reduces \$121.1 million GF and adds \$121.1 million NGF to reflect a decision by Congress in the spring of 2003 to provide fiscal relief to states. This action, which cuts across most Medicaid spending in FY 2004, simply reflects the fact that federal Medicaid dollars will be used in place of general funds in the current fiscal year.
- ***Indigent Care Payments to Teaching Hospitals.*** Reduces general funds by \$17.6 million in FY 2004 for indigent care services provided by the Virginia Commonwealth University Health

System Authority and the University of Virginia Medical Center. The general fund reductions reflect efforts to reduce reliance by the teaching hospitals on disproportionate share hospital payments. Currently, both entities receive enhanced Medicaid payments for serving a disproportionate share of low-income, uninsured patients. However, the amount states can collect in enhanced federal Medicaid reimbursement is capped, requiring the hospitals to seek alternative funding sources for increased costs of indigent care. These initiatives have resulted in the need for fewer general funds in the current fiscal year.

- ***Reduce Administrative Funding for Disease Management.*** Reduces \$700,000 GF and \$700,000 NGF in FY 2004 from administrative funding that was previously provided to the Department to pursue an expanded disease state management program. While the initiative was designed to achieve cost savings in the Medicaid program, thus far it has been unsuccessful.
- ***Offset General Fund Match for MHMR Facilities With Federal Fiscal Relief.*** Reduces general funds by \$7.7 million in FY 2004 to reflect the substitution of enhanced Medicaid revenues that were provided by Congress in the spring of 2003 to provide fiscal relief to states. This action merely substitutes federal Medicaid dollars for state general funds in FY 2004. This change has no impact on the provision of services.
- **Department of Mental Health, Mental Retardation and Substance Abuse Services**
 - ***MH Facility Revenue Shortfall.*** Adds \$11.6 million GF and reduces \$11.6 million NGF in FY 2004 to reflect the loss of patient revenues at the state’s mental health treatment facilities. As the census at these facilities has declined and fewer Medicaid-eligible clients have been served, operating revenues received from the Medicaid program have diminished, resulting in the current funding shortfall. In recent years, Department staff has been able to maximize federal Medicaid revenues through a year-end cost-settlement process that is no longer feasible given the decline of Medicaid-eligible patients.
- **Department of Social Services**
 - ***Mandated Adoption Subsidy Payments.*** Provides \$2.1 million GF and \$418,500 NGF in FY 2004 for increased caseload and

expenditures for mandatory adoption subsidy payments according to state and federal law. The additional appropriation will be used to provide subsidy payments to parents who adopt children who were previously in the state's foster care program.

Natural Resources

- **Department of Conservation and Recreation**
 - *Transfer Technology Reform Funding.* Restores \$157,405 GF in FY 2004 for information technology functions associated with in-house programs. These funds were originally to be removed from the agency with information technology consolidations under the Virginia Information Technologies Agency.

- **Department of Environmental Quality**
 - *Transfer Technology Reform Funding.* Restores \$1.4 million GF in FY 2004 for information technology functions associated with in-house programs. These funds were originally to be removed from the agency with information technology consolidations under the Virginia Information Technologies Agency.

- **Department of Game and Inland Fisheries**
 - *Increase Transfer to the Game Protection Fund.* Proposed language in Part 3 of the introduced amendments increases the general fund transfers to the Game Protection Fund from watercraft sales taxes by \$681,753.

Public Safety

- **Department of Corrections**
 - *Winchester Regional Jail.* Includes language which authorizes the Board of Corrections to approve an expansion project at the Clark-Fauquier-Frederick-Winchester Regional Adult Detention Center earlier than the date provided in the Code of Virginia (March 1, 2005), so this project may go forward on an expedited basis. The language also provides that the Governor may include a recommendation for funding this project in his amendments to be submitted to the 2005 General Assembly.

- **Department of Emergency Management**
 - *Hurricane Isabel Recovery Costs.* Includes language reserving \$49.0 million from general fund balances for costs associated with Hurricane Isabel, including state match for federal disaster assistance funds.

Technology

No actions in HB29/SB29.

Transportation

- **Department of Motor Vehicles**
 - *Part 3 Transfer Reduction.* Recommends that the Part 3 transfer from DMV to the general fund be reduced by \$2.3 million, leaving a continued FY 2004 transfer of \$9.2 million to the general fund.

 - *Part 3 Transfer.* Recommends the transfer of \$6.0 million from the general fund to DMV to be used by DMV to satisfy the Department's outstanding Treasury Loan.

Central Appropriations

- **Technology Reform**
 - *Adjust Appropriation for Technology Reform.* Proposes to reduce funds available for the technology reform initiative by \$6.2 million GF in FY 2004 to account for the revised implementation schedule and other activities.
- **Personal Property Tax Relief**
 - *Adjust Appropriation for Revised Forecast.* Proposes a reduction of \$28.4 million GF the second year to reflect the most recent FY 2004 forecast.
- **Economic Contingency**
 - *State Board of Elections 2004 Presidential Primary Expenses.* Proposes language that would provide the State Board of Elections with up to \$1.9 million GF in FY 2004 for costs associated with the 2004 presidential primary. Of this amount, it is anticipated that about \$1.6 million GF would be used to reimburse localities for expenses associated with the primary.

Independent

No actions in HB29/SB29.

Nonstate Agencies

No actions in HB29/SB29.

Capital Outlay

The Governor's proposed capital outlay amendments to the FY 2004 budget include:

- **Department of General Services**
 - *Realign Projects Under Renovation of Capitol Square.* Realigns the six projects previously combined under the Renovation of Capitol Square into separate items in the budget to simplify administration and accounting.
 - *Supplement State Capitol Renovation.* Proposes a net increase of \$6.6 million in Virginia Public Building Authority debt and \$7.9 million in nongeneral funds to address issues identified by the architect, including: replacement of stucco exterior, correction of structural problems, and abatement of hazardous materials. The nongeneral fund increase reflects anticipated private contributions to the project for finishes, exhibits and landscaping.
- **University of Virginia**
 - *Technical Adjustment for Concert Hall Project.* Substitutes \$13.2 million in 9(d) revenue bonds for private gifts to change the project's fund source.
- **University of Virginia-Wise**
 - *Technical Adjustment for Residence Hall Project.* Substitutes \$6.4 million in 9(c) revenue bonds for private gifts to change the project's fund source.