# Overview of the Governor's Budget Recommendations for 2004-06

The Governor's budget recommendations for 2004-06 are intended to address a projected budget shortfall for the next biennium. Although the budget is based on an improved economic outlook for the next two fiscal years, general fund revenues are expected to be insufficient to fully cover current appropriation levels and the increased costs of high priority commitments such as Medicaid and the state share of the Standards of Quality in public education.

To address the budget shortfall and to fund selected contingent appropriations, the Governor proposes a tax package that generates $1,184.4 million in additional revenue over the next biennium. The budget also includes budget savings of about $702.5 million.

The proposed budget includes general fund appropriations of $27,026.2 million for the biennium, an increase of 9.6 percent above the adjusted base budget, driven largely by an average annual increase of 7.9 percent for Medicaid and a 9 percent biennial increase in direct aid to public education. Additional general fund spending totals $3,065.8 million, offset in part with savings of about $702.5 million, resulting in net new GF spending of $2,363.3 million.

About $883.9 million of the additional $2,363.3 million in net spending is identified as contingent upon passage of the Governor's tax proposal. Another $292.3 million in revenue from a proposed cigarette tax increase is included as special funds in the proposed Virginia Health Care Fund to address inflation and utilization in Medicaid, an amount that otherwise would have been required from general funds.

## Revenues

The Governor's proposed 2004-06 budget includes $27.0 billion in general fund resources available for appropriation, based on growth rates of 6.9 percent for FY 2005 and 6.8 percent for FY 2006. These growth rates assume passage of the Governor's tax proposal.

| General Fund Resources Available for Appropriation (2004-06 biennium, $ in millions) | |
|---|---|
| Beginning Balance | $ 358.4 |
| Adjustments to Balance | (1.0) |
| Revenue Estimate* | 25,631.9 |
| Lottery Proceeds | 797.0 |
| Transfers | 249.5 |
| **Total GF Resources** | **$ 27,035.8** |

*Assumes passage of Governor's tax proposal.

HB/SB 30 includes $358.4 million as a projected unspent balance at the end of the 2002-04 biennium. This balance results primarily from the ripple effect of a $55.2 million revenue surplus in FY 2003; continued strengthening of the economy in FY 2004; Tax Amnesty collections of $44.7 million above the estimate; and $240.7 million in flexible grants that Virginia received under the Federal Jobs and Growth Tax Relief Act of 2003.

The underlying economic forecast, without the Governor's tax proposal, assumes general fund tax revenues will grow 5.3 percent in FY 2005 and 5.1 percent in FY 2006. The forecast assumes that major economic variables affecting the forecast -- jobs, personal income, and wage/salary growth -- will return to trend levels achieved prior to the technology-driven stock market bubble and will meet or slightly exceed projected national growth rates.

As a result of the inclusion of the Governor's tax proposal, the 2004-06 budget reflects general fund tax revenue growth of 6.9 percent in FY 2005 and 6.8 percent in FY 2006. In total, general fund tax revenues of $25,631.9 million are assumed. These amounts do not include approximately $587.0 million that the Governor proposes to direct to a new Virginia Health Care Fund. The fund would be comprised of revenues from the proposed increase in the cigarette tax of $292.3 million, as well as revenues of $162.9 million from Medicaid recoveries, $101.6 million representing the state 40 percent share of the Tobacco Master Settlement Agreement, and $30.2 million in current cigarette tax revenues.

As noted, revenues included in HB/SB 30 assume the passage of the Governor's tax proposal. The package includes policy changes for the sales tax,

individual income tax, estate tax, and cigarette taxes. The revenue generated by the package is estimated to be $1.2 billion for the 2004-06 biennium. Details of the tax proposal are provided in the Resources section of this document.

The general fund revenue estimate also includes the collection of $52.6 million each year resulting from the end of the current Tax Public/Private Partnership contract with American Management Systems (AMS).

Finally, the general fund forecast contains approximately $1.0 billion in transfers. Of this amount, $797.0 million represents the transfer of lottery profits estimated at $395.0 million in FY 2005 and $402.0 million in FY 2006. Other customary transfers include ABC profits of $24.9 million for the biennium, with an additional $48.2 million per year of ABC profits and $9.9 million per year of wine tax profits going to the Department of Mental Health, Mental Retardation and Substance Abuse Services for substance abuse programs.

The majority of NGF transfers required in the 2002-04 budget to help offset the revenue shortfall has been discontinued in HB/SB 30. A targeted NGF reduction of $30.0 million for the biennium, derived from a number of agencies, is included in transfer actions, with contingent language indicating that the amount will be increased to $52.0 million if the Governor's tax proposal is not enacted.

## Proposed Spending Increases

The budget as introduced proposes net new spending of $2,363.3 million GF above the adjusted base budget for the next biennium. Of this amount, about $883.9 million in general fund spending is contingent upon passage of the Governor's proposed tax package. Additional spending of $292.3 million will be offset by a proposed increase in cigarette tax revenue that will be deposited into the Virginia Health Care Fund, a fund dedicated solely for health care costs.

Proposed spending items include:

- Net spending of $728.9 million GF for the cost of the state share of the Standards of Quality for public schools, including adjusted benefit contribution rates, updates to related categorical and incentive programs, updates to the composite index, deduction of locally-generated and federal revenues from SOQ costs, and deduction of technology costs from the SOQ.

- $707.8 million to fund the increased cost of Medicaid utilization and inflation, paid for with $120.8 million in additional general funds and

$587.0 million in special funds from the proposed Virginia Health Care Fund.

- $105.3 million GF for a proposed three percent salary increase for state employees, teachers, faculty, and state-supported local employees effective late 2005. State classified employees who attain a rating of "extraordinary contributor" will receive an additional one percent base adjustment.

- $103.4 million GF to maintain car tax relief at 70 percent, plus $156.6 million GF, contingent on the passage of the Governor's tax proposal, to increase reimbursements to localities for car tax relief to 77.5 percent in CY 2005 and to 85 percent in CY 2006.

- $87.0 million GF for deposit to the Rainy Day Fund in FY 2006.

- $82.6 million GF for debt service on previously authorized capital projects, for proposed new projects, and for the acquisition of equipment.

- $66.0 million GF to fund increased health insurance premiums for state employees.

- $62.8 million GF to fund deferred maintenance and critical emergency projects at state facilities.

- $46.8 million GF to fund the increased cost of serving special needs children under the Comprehensive Services Act.

## Spending Increases
## Proposed in HB/SB 30, as Introduced
(Biennial GF, $ in millions)

### Public Education

**Direct Aid**

| | |
|---|---|
| Changes to SOQ Funding - Technical | $839.4 |
| Update benefit contribution rates for SOQ related positions - Technical | 168.0 |
| Adjust sales tax revenues for public education - Technical | 66.2 |
| Update for a change in the composite index - Technical | 53.5 |
| Update costs of incentive-based programs - Technical | 52.5 |
| Update costs of categorical programs - Technical | 30.4 |
| Board of Education revision to SOQ remediation program | 41.1 |
| Increase funding for English as a Second Language (Contingent) | 19.7 |
| Implement No Child Left Behind (NCLB) Act | 9.5 |
| Fund Northern Virginia cost of competing (Contingent) | 7.1 |
| Fund Project Graduation | 5.6 |
| Increase funding for the At-Risk Four-Year-Old program (Contingent) | 4.5 |
| Institute "no-loss" provision | 3.7 |

**Dept. of Education**

| | |
|---|---|
| Maintain current Standards of Learning (SOL) testing | $6.3 |
| Implement statewide student information system | 4.4 |
| Continue Standards of Learning (SOL) technology initiative | 3.7 |
| New positions to support implementation of NCLB | 2.0 |
| National Board Certification bonuses program | 1.5 |

### Human Resources

**Dept. of Medical Assistance Services**

| | |
|---|---|
| Medicaid utilization and inflation (does not include $587.0 million from the Virginia Health Care Fund) | $120.8 |
| Low-income children (FAMIS Plus) caseload growth | 16.5 |
| FAMIS caseload growth | 14.8 |
| Unrealized revenue maximization savings | 13.8 |
| Increase nursing facility reimbursement (Contingent) | 9.7 |
| Increase hospital inpatient reimbursement (Contingent) | 9.1 |
| Involuntary mental commitments (also see Judicial) | 3.1 |

**Dept. of Mental Health, Mental Retardation & Substance Abuse Services**

| | |
|---|---|
| MH facility revenue shortfall | $29.6 |
| MH discharge assistance funds (Contingent) | 9.0 |
| Add 160 MR waiver slots (Contingent) | 6.7 |
| Additional MH Assertive Community Treatment teams (Contingent) | 4.6 |

## Spending Increases
## Proposed in HB/SB 30, as Introduced
(Biennial GF, $ in millions)

| | |
|---|---|
| Community MH services for non-mandated children & adolescents (Contingent) | $4.0 |
| Increase purchase of inpatient treatment beds in community hospitals (Contingent) | 2.0 |
| **Dept. of Social Services** | |
| Restore general funds for TANF maintenance of effort | $20.7 |
| Mandatory adoption subsidy payments | 14.1 |
| Mandatory IV-E foster care payments | 11.4 |
| Expand child care services for low-income families | 6.6 |
| EBT cost increase for food stamps | 1.8 |
| **Comprehensive Services Act (CSA)** | |
| Increased cost of mandatory services | $46.8 |
| **Center for Behavioral Rehabilitation** | |
| Staffing at Virginia Center for Behavioral Rehabilitation | $9.1 |
| **Higher Education/Other Education** | |
| **SCHEV** | |
| Increase Tuition Assistance Grants (TAG) (Contingent) | $4.5 |
| Expand the Virtual Library of Virginia (VIVA) (Contingent) | 2.9 |
| Fund tuition waivers for military dependents (Contingent) | 2.0 |
| **Colleges & Universities** | |
| Provide base adequacy funding (Contingent) | $35.5 |
| Fund enrollment growth (Contingent) | 35.1 |
| Instruction/research supplement (Contingent) | 11.5 |
| Provide additional student financial aid | 9.1 |
| Fund operations of Northern Va. CC-Medical Education Campus | 7.0 |
| Fund operation & maintenance of new facilities | 4.6 |
| Fund Institute for Advanced Learning and Research (Contingent) | 3.0 |
| Fund program enhancements at NSU and VSU | 2.7 |
| Fund advanced communications network (Contingent) | 2.4 |
| Fund high-value crops initiatives (Contingent) | 1.4 |
| Support VSU Extension | 1.4 |
| UVA health insurance premiums | 1.2 |
| **Jamestown-Yorktown Foundation** | |
| Operation and maintenance of new facilities | $2.2 |
| **General Government** | |
| **Car Tax** | |
| Continue personal property tax relief at 70 percent | $103.4 |

## Spending Increases
## Proposed in HB/SB 30, as Introduced
(Biennial GF, $ in millions)

| | |
|---|---|
| Provide additional personal property tax relief (Contingent) | 156.6 |
| **Rainy Day Fund** | |
| FY 2006 deposit to the Revenue Stabilization Fund | $87.0 |
| **Employee Compensation** | |
| Fund Dec. 1, 2005 salary increase for public school teachers (Contingent) | $50.9 |
| Fund Nov. 25, 2005 salary increase for state employees (Contingent) | $30.0 |
| Fund Dec. 1, 2005 salary increase for state-supported local employees (Contingent) | 12.4 |
| Fund Nov. 25, 2005 salary increase for higher education faculty (Contingent) | 12.0 |
| Fund increased health benefit premiums for state employees | 66.0 |
| Provide funding for state employee sickness and disability program contributions | 17.3 |
| Net cost to provide for a pooled retirement contribution rate for state employees and public school teachers (Contingent): | 5.8 |
| Increased cost for state employees - $58.2 million | |
| Savings to SOQ - $52.4 million | |
| **Other** | |
| Provide funding for semiconductor manufacturing performance grant programs | $13.4 |
| Increase Governor's Development Opportunity Fund | 3.0 |
| **Taxation** | |
| Fund partnership project continuation costs | $22.3 |
| Implement Governor's tax proposal | 5.3 |
| **Debt Service** | |
| Adjust funding for debt service | $50.5 |
| Provide debt service for STARS communications system (Contingent) | 11.6 |
| Provide debt service funding for new projects | 9.1 |
| Provide debt service funding for higher education equipment | 11.4 |
| **Virginia Information Technologies Agency (VITA)** | |
| Support start-up costs for VITA consolidation | $4.8 |
| Eliminate duplication of electronic mail systems | 1.9 |
| Add VITA start-up equipment out-year costs | 1.0 |
| **General Services** | |
| Fund increases in state agency rent plan | $1.9 |
| **Board of Elections** | |
| Rebase compensation for general registrars and local electoral board members salaries | $2.0 |
| **Compensation Board** | |
| Provide funding for per diem payments to local and regional jails | $15.1 |

## Spending Increases
## Proposed in HB/SB 30, as Introduced
(Biennial GF, $ in millions)

| | |
|---|---|
| | 10.3 |
| Provide funding to jails to support additional deputy positions needed due to jail overcrowding | 3.8 |
| Expand the jail contract bed program | 3.3 |
| Fund shortfall in annualization cost of December 2003 salary regrade | 2.3 |
| Provide one law enforcement deputy per 1,500 in local population | 1.5 |
| **Department of Accounts** | |
| Adjust appropriation for aid to localities program | $6.0 |
| Provide funding for Line of Duty Act payments | 5.6 |
| Provide funding for school system efficiency reviews | 5.7 |
| **Judicial** | |
| Increase funds for criminal indigent defense (also see DMAS) | $14.8 |
| **Public Safety** | |
| **Dept. of Corrections** | |
| Replace out-of-state inmate revenue | $35.0 |
| Increase funding for inmate medical costs | 18.0 |
| Re-open Nottoway Work Center | 6.1 |
| Expand use of temporary prison beds | 2.6 |
| **Community Corrections** | |
| Expand transitional substance abuse treatment program | $2.8 |
| Replace grant funding for transitional treatment program | 2.4 |
| Replace federal grant funding for substance abuse services | 1.9 |
| **Criminal Justice Services** | |
| Increase funding for the H.B. 599 program (Contingent) | $35.6 |
| **Juvenile Justice** | |
| Increase funding to support the increase in direct costs per ward | $4.3 |
| Fund state share of Va. Beach detention center operating costs | 4.0 |
| Provide additional funding for security positions for juvenile correctional centers (Contingent) | 2.7 |
| **State Police** | |
| Additional funding for the sworn officers retention pay plan (Contingent) | $2.9 |
| Fund sworn officers retention pay plan | 2.1 |
| Continue the Statewide Agencies Radio System (STARS) project (Contingent) | 5.0 |
| **Dept. of Fire Programs** | |
| Provide general fund match for federally funded Staffing for Adequate Firefighters and Emergency Response (SAFER) grant program | $1.3 |

## Spending Increases
## Proposed in HB/SB 30, as Introduced
(Biennial GF, $ in millions)

| | |
|---|---|
| **Economic Development** | |
| **Economic Development Partnership** | |
| Provide funding to market distressed areas (Contingent) | $2.0 |
| Provide funding for the Virginia Commission on Military Bases | 1.0 |
| **Mines & Energy** | |
| Fund Solar Photovoltaic Manufacturing Incentive Grant Program | $1.9 |
| **Virginia Tourism Authority** | |
| Provide funds to promote Jamestown 2007 (Contingent) | $2.0 |
| **Natural Resources** | |
| **Environmental Quality** | |
| Provide funding for the Water Quality Improvement Fund deposit | $5.8 |
| Provide additional funding for water supply planning | 1.0 |
| **Game & Inland Fisheries** | |
| Provide funding for agency operations (Contingent) | $1.5 |
| **Conservation & Recreation** | |
| Provide funding for the Water Quality Improvement Fund | $1.9 |
| **Transportation** | |
| **Va. Dept. of Transportation** | |
| Provide funding from the insurance license tax (Contingent) | $272.0 |
| Provide general fund moneys for FRAN debt service | 9.0 |
| **Other Operating** | $30.3 |
| **Subtotal, Operating** | **$3,003.0** |
| **Capital Outlay** | |
| Maintenance Reserve for state agency facilities | $50.0 |
| Critical Repairs/Improvements | 7.5 |
| VSU Maintenance Reserve | 2.4 |
| NSU Maintenance Reserve | 2.9 |
| **Subtotal, Capital** | **$62.8** |
| **Total, General Fund Spending** | **$3,065.8** |

## Proposed Budget Savings

The introduced budget includes about $702.5 million in proposed general fund budget savings.. The proposed savings are detailed below.

**Savings Proposed in HB/SB 30, as Introduced**
(Biennial GF, $ in millions)

| | |
|---|---|
| **Public Education** | |
| **Direct Aid** | |
| Adjust SOQ funding for alternative sources of revenue | ($418.2) |
| Deduct technology from SOQ costs | (109.7) |
| Use additional Literary Fund to support teacher retirement | (30.8) |
| Revise funding formula for K-3 class size | (11.9) |
| **General Government** | |
| **Central Accounts** | |
| Adjust funding for state employee retirement contributions | ($27.3) |
| Continue the premium holiday on state employee group life | (26.8) |
| Reduce appropriation for technology reform | (5.8) |
| **Taxation** | |
| Adjust funding for the federal debt set-off program | ($1.2) |
| **VITA** | |
| Produce operations efficiency savings | ($5.0) |
| Implement VITA savings strategy | (2.7) |
| **Public Safety** | |
| **Dept. of Corrections** | |
| Supplant general fund appropriations with Correctional Enterprise funds | ($2.0) |
| Consolidate prison warehouse operations | (1.2) |
| **State Police** | |
| Supplant funding for med-flight operations with EMS $4-for-Life | ($2.1) |
| **Human Resources** | |
| **Department of Health** | |
| Eliminate general fund support for emergency medical services | ($6.4) |
| Supplant Office of Vital Records and Health Statistics operating support with Vital Statistics Automation Fee | (1.9) |
| **Department of Medical Assistance** | |
| Adjust indigent health care payments to teaching hospitals | ($28.0) |

| Savings Proposed in HB/SB 30, as Introduced (Biennial GF, $ in millions) | |
|---|---|
| Implement a state maximum allowable cost program for generic prescription drugs | (10.3) |
| Move AIDS Waiver patients into the Elderly and Disabled Waiver | (2.3) |
| Implement a limited disease state management program | (2.0) |
| Reduce administrative funding for a disease management contract | (1.4) |
| **Other Savings** | (5.3) |
| **Total, General Fund Savings** | **($702.5)** |

A summary of significant general fund spending increases and savings actions proposed in each major area follows.

***Public Education.*** The proposed budget for Direct Aid to Public Education contains a net increase of $728.9 million GF and $47.3 million NGF for the biennium when compared to the adjusted base budget. This total reflects new spending of $1.3 billion GF, offset by $572.4 million GF in reductions. The total does not reflect an increase of $50.9 million GF for a three percent teacher salary increase in the second year and a savings of $52.4 million GF by using the "pooled" retirement rate of 6.56 percent. These items are located in the Central Appropriations section of the budget, and are contingent upon passage of the Governor's tax proposal.

Recommended biennial increases for Direct Aid to Public Education include formula-driven and technical increases of $1.2 billion GF to update the Standards of Quality (SOQ), Incentive, and Categorical accounts for increased enrollment, prevailing costs of education, sales tax revenues, and updated composite index calculations; $41.1 million in additional lottery proceeds to support the State Board of Education's recommendation to revise the SOQ remediation methodology; $16.6 million NGF (Literary Fund) for debt service on technology equipment note issuances; $9.5 million GF to help school divisions meet the requirements of the federal No Child Left Behind Act; $5.6 million GF for programs to help high school seniors pass the Standards of Learning (SOL) graduation requirements; and $3.7 million GF to ensure no school division receives less funding than it received for FY 2004 in HB 29/SB 29.

In addition, the following increases are contingent upon passage of the Governor's tax proposal: $19.7 million GF to enhance funding for English as a Second Language; $7.1 million GF to fully fund the cost of competing adjustment for Planning District 8; and $4.5 million GF to reduce the deduction of Title I students from the funding calculation for the at-risk four-year-olds program.

In addition to the transfer of an additional $30.8 million from the Literary Fund to cover a portion of retirement costs, the following reductions are proposed to offset cost increases: $418.2 million GF from deducting certain federal and locally generated revenue sources from SOQ costs; $109.7 million GF from deducting non-personal technology costs from the SOQ; and $11.9 million GF by changing the K-3 class size reduction calculation.

***Higher Education.*** The introduced budget provides a net increase of $125.9 million GF, or 4.8 percent, for higher education compared to the adjusted base budget. The net change reflects an increase of $130.1 million GF to support the Governor's initiatives offset by a decrease of $4.2 million GF identified primarily for technical adjustments.

About three-fourths of the increases earmarked for higher education in the introduced budget are contingent upon the passage of the Governor's tax proposal, with the largest initiative focused on increasing institutions' base operating needs. The proposed budget includes $82.1 million GF over the biennium to support three components of this initiative: 1) improving the adequacy of base funding for institutions' educational and general (E&G) programs, 2) providing support for recent enrollment growth, and 3) enhancing targeted academic and research programs at selected institutions.

Other proposed increases include: $9.1 million GF for student financial aid; $7.0 million GF for the operation of the medical education campus of Northern Virginia Community College; $4.5 million to increase Tuition Assistance Grants (TAG) for in-state students attending a private college or university in Virginia; $4.6 million GF for the operation of new facilities coming on-line; $3.0 million GF for the Institute for Advanced Learning and Research in Danville; $2.7 million GF for program enhancements at Virginia's two historically-black institutions; $2.4 million GF to provide Virginia's research institutions with access to advanced communications networks; $2.0 million GF to offset the cost of tuition waivers for military dependents residing in Virginia; and $1.2 million GF for the state share of health insurance premium increases at the University of Virginia.

In addition, the proposed budget includes $12.0 million GF for the state share of a three percent salary increase for faculty in FY 2006 and $11.4 million to support the biennial debt service on $104.4 million of equipment purchases through the Higher Education Equipment Trust Fund.

***Other Education.*** The proposed budget provides a net increase of $3.1 million GF for state museums and other educational entities. This net increase is the result of $3.8 million in GF increases offset by $686,000 in GF reductions. Although most of the proposed changes are technical in nature, the budget includes $2.2 million GF to support the operation of new facilities at Jamestown and $640,000 GF for grants for the arts through the Virginia Commission for the Arts. The funding for the Commission is contingent upon the passage of the Governor's tax proposal.

***Health and Human Resources.*** The proposed budget for Health and Human Resources results in a net increase of $320.1 million GF and $1.6 billion NGF for the biennium when compared to the adjusted base budget. About 79 percent of the funding is required to meet caseload and cost increases, comply with federal and state mandates, and offset nongeneral fund revenue losses. In addition, a $27.4 million GF initiative is included to address the U.S. Supreme Court's Olmstead decision by increasing community-based services for mentally disabled persons.

A portion of the proposed funding for Health and Human Resources totaling $46.2 million GF, $27.6 million NGF for Emergency Medical Services, and $292.3 million from the Virginia Health Care Fund (representing the proposed increase in the cigarette tax) is contingent upon revenues assumed by the passage of the Governor's tax proposal. Most of this contingent funding affects the Medicaid program and the proposed initiative to address the Olmstead decision.

Most of the added spending is for growth in mandatory Medicaid expenses, which require the addition of $707.8 million in state funding for the biennium. Funding to address the state's share of projected Medicaid growth comes largely from the Governor's proposed Virginia Health Care Fund. The fund would be used solely for health care services and is comprised of revenues from the current cigarette tax, the undesignated 40 percent general fund share of the Tobacco Master Settlement Agreement, and all prior-year Medicaid recoveries. The introduced budget also proposes language to increase the state cigarette tax from 2.5 cents per pack to 25 cents per pack. The $292.3 million in increased cigarette tax revenue over the biennium would also be deposited into the Virginia Health Care Fund. With this increased revenue, the fund is estimated to provide $587.0 million in 2004-06 for the Medicaid program. To fully fund the forecast need for Medicaid in 2004-06, an appropriation of $120.8 million GF is proposed in addition to revenues from the Virginia Health Care Fund.

Caseload and cost increases in other programs account for $106.7 million GF of the additional funding for health and human resource agencies: $46.8 million GF for at-risk youth entitled to care under the Comprehensive Services Act (CSA); $31.3 million GF for growth in the number of low-income children eligible for FAMIS and FAMIS-Plus, the state's children's health insurance program; $25.5 million GF for children entitled to foster care and subsidized adoptions; and $3.1 million GF for increases in the cost of involuntary mental commitments.

The proposed budget also includes $12.3 million GF to address other federal and state mandates: $9.1 million for the civil commitment and treatment of violent sexual predators in a state facility; $859,000 to monitor and treat sex offenders conditionally released by the courts into the community; $506,250 to support workload increases in determining eligibility for Medicaid disability services in the Department of Rehabilitative Services; and $1.8 million for contractual costs to administer the federally mandated Electronic Benefits Transfer System for food stamps.

The proposed $27.4 million GF Olmstead initiative includes: $9.0 million to discharge 77 long-term mentally disabled patients from state facilities and treat with specialized services; $6.7 million for 160 new mental retardation waiver slots; $4.6 million to add three programs of assertive community treatment for mentally ill adults (PACT); $4.0 million to increase community mental health services for children with serious emotional and behavioral disorders; $2.0 million to expand the purchase of short-term inpatient mental health treatment beds at local community hospitals; $804,431 to add 25 slots for the developmentally disabled waiver program; and $360,000 to add five new Public Guardian and Conservator Programs to serve disabled adults.

About 80 percent of the budget savings in health and human resources results from $44.5 million GF in Medicaid cost avoidance and cost containment actions including efforts to reduce teaching hospital reliance on general funds for indigent care ($28.0 million); implementation of a new payment system for generic drugs ($10.3 million); and other actions.

***Public Safety.*** The proposed budget includes a net increase of $122.3 million GF for the biennium for public safety agencies, an increase of 4.4 percent compared to the adjusted base budget. This includes total increases of $129.3 million GF offset by total reductions of $7.0 million GF. The proposed budget includes $35.6 million for state aid to localities with police departments (pursuant to House Bill 599 passed in 1979). Language indicates the HB599 spending is contingent upon passage of the Governor's tax proposal.

The proposed budget also provides funding for the Statewide Agencies Radio System (STARS) project, including $5.0 million GF for attorney and consultant fees, and $11.6 million GF for debt service. A separate bill has been proposed to provide VPBA bond financing of $159.3 million for the first phase of the STARS project. Language indicates the spending is contingent upon passage of the Governor's tax proposal.

Also included for adult corrections is $34.9 million GF to terminate the remaining contracts for housing out-of-state inmates in state correctional facilities in order to free-up prison bed space for the growing number of state-responsible offenders in Virginia. Other recommendations include $18.0 million GF for inmate medical costs, $6.1 million GF to reopen Nottoway Work Center, $2.6 million GF to add 479 additional temporary emergency beds, and $7.1 million GF for substance abuse treatment and transitional services.

For juvenile corrections, the budget includes $4.2 million GF for facility medical costs, $4.0 million GF for the state share of start-up and operating costs for the Virginia Beach detention center, and $2.7 million GF (contingent upon passage of the Governor's tax proposal) to fill vacant juvenile correctional officer positions.

In addition, $69.0 million NGF is proposed for the Department of Alcoholic Beverage Control to expand the number of ABC retail stores, increase the stock of merchandise for sale, and meet other costs of doing business. Net transfers of ABC profits are projected to increase by $7.0 million over the current biennium.

***General Government.*** Proposed changes to the budget for administration agencies include: $15.1 million GF to support per diem payments to local and regional jails; $3.8 million GF for additional staff at overcrowded local and regional jails; $10.3 million GF for additional staff at three new or expanded local and regional jails; $3.3 million GF to expand the Department of Corrections' contract bed program with the local and regional jails; $2.3 million GF to offset a shortfall in the annualization costs of the December, 2003 salary regrade for regional jails and sheriffs' and Commonwealth's Attorneys' offices; and $1.5 million GF to maintain one law enforcement deputy per 1,500 local residents. There are no significant general fund reductions.

Central Appropriations serves as a holding account for contingent funds, unallocated cost increases and decreases, and for the car tax relief appropriation. A total of $2.3 billion GF and $152.4 million NGF are recommended for appropriation to Central Appropriations in the 2004-06 biennium. Major funding items include: $105.3 GF million for three percent employee salary increases; $66.1 million GF for the increased cost of state employee health insurance; $3.0

million GF for the Governor's discretionary economic development "Deal Closing Fund"; $17.3 million GF for the increased cost of the VRS Sickness and Disability Program; $13.4 million GF for two semiconductor performance grant programs; and $5.4 million GF for the Statewide Agency (STARS) and forestry radio systems.

The proposed employee salary increases include: $28.4 million GF for a three percent salary increase for state employees on November 25, 2005; $1.7 million GF for a one percent performance increase on November 25, 2005 for state employees rated as "Extraordinary Contributors"; $12.0 million GF for a salary increase averaging three percent for faculty on November 25, 2005; $12.4 million GF for a three percent salary increase for state-supported local employees on December 1, 2005; and $50.9 million GF for a three percent salary increase for teachers on December 1, 2005. The salary increases are contingent upon passage of the Governor's tax proposals.

The amount recommended for the car tax relief program includes an additional $103.4 million GF for the increased cost of continuing the reimbursements at 70 percent. Another $156.6 million GF is recommended for the cost of increasing the reimbursements to 77.5 percent in FY 2005 and 85 percent in FY 2006. Proposed reimbursements above 70 percent are contingent upon passage of the Governor's tax proposals.

Other Central Appropriations items contingent upon passage of the Governor's tax proposals include the pooled state employee and teacher retirement rates, and continued development of the Statewide Agencies Radio System (STARS).

Proposed increases for finance agencies include $87.0 million GF for deposit into the Revenue Stabilization Fund; $82.6 million GF in additional debt service for bonds issued by the Commonwealth; $22.3 million GF to continue computer equipment leases needed by the Department of Taxation; $5.3 million GF to implement the Governor's proposed tax policy changes; $6.0 million GF in additional transfers to local governments; $5.8 million GF in funding for school system efficiency reviews; and $5.6 million GF in funding for Line of Duty Act payments.

***Judicial.*** In the Judicial branch, the introduced budget includes $14.8 million GF to cover projected expenditures through the Criminal Fund and Involuntary Mental Commitment Fund. Another $3.1 million is included in the Department of Medical Assistance Services for hospitalization costs associated with involuntary mental commitments.

***Technology.*** The proposed biennial appropriation for Technology agencies provides $21.7 million GF and $66.2 million NGF. The appropriation for the Innovative Technology Authority reflects a reduction of $1.9 million GF the first year and $3.8 million GF the second year to implement the phase-out of general fund support for the Center for Innovative Technology by FY 2008. A number of appropriation increases totaling $7.8 million GF are proposed for the Virginia Information Technologies Agency (VITA) to fund additional start-up costs. These funds would be in addition to revenue generated by the recently approved internal service fund charges paid by agencies receiving VITA services. No agency operational savings from the technology consolidation are anticipated until FY 2006, at which time administration estimates project that VITA initiatives will reduce GF and NGF costs by a total of $5.0 million.

***Commerce and Trade.*** The proposed 2004-06 appropriation for Commerce and Trade includes an increase of $7.7 million GF and $213.0 million NGF above the adjusted base budget.

New funding of $1.9 million GF in FY 2005 is proposed to carry out the commitments made under the Solar Photovoltaic Manufacturing Incentive Grant Program. In Central Appropriations, the introduced budget includes $13.4 million GF to honor commitments made under the Semiconductor Manufacturing Performance Grant Program. Central Appropriations also includes $23.0 million GF for the Governor's Development Opportunity Fund.

Proposals for the Virginia Economic Development Partnership and the Virginia Tourism Authority address possible closings of military bases ($1.0 million GF); economic development marketing for distressed communities ($2.0 million GF); and special marketing efforts for the Jamestown 2007 commemoration ($2.0 million GF). The two marketing initiatives are contingent upon passage of the Governor's tax proposal.

***Natural Resources.*** The proposed budget for natural resources provides $584.7 million in total appropriations, increasing general funds by $15.4 million for the biennium, or ten percent. The largest general fund increase is $7.7 million in FY 2005 for the Water Quality Improvement Fund (WQIF). Other general fund items include: restoration of $3.0 million for in-house technology initiatives at various agencies; $1.5 million for game protection enforcement at the Department of Game and Inland Fisheries (contingent upon passage of the Governor's tax proposal); $515,659 for dam safety inspections and repairs in the Department of Conservation and Recreation; and $1.0 million GF for water supply planning at the Department of Environmental Quality (DEQ).

The largest increase for the secretarial area – a $30.2 million biennial NGF appropriation – falls under DEQ. These funds, for a new Virginia Natural and

Historic Resources Fund, come from an existing $10 fee on recordation transactions that are currently deposited into the general fund. The transfer of these general funds to the new special fund is contingent upon passage of the Governor's tax proposal. Finally, the introduced budget includes $5.2 million NGF to fund waste and water pollution regulatory activities. Funding for these activities is contingent upon passage of separate legislation to increase fees.

***Transportation.*** The proposed budget for transportation agencies includes $427.0 million GF and $6,871.9 million NGF. Included in the recommended GF appropriation is $130.4 million in the first year and $141.6 million in the second year, representing one-third of the projected insurance premium tax revenues, as provided for by the Virginia Transportation Act of 2000. Accompanying language stipulates that the appropriation of the insurance premium tax is contingent upon passage of the Governor's tax proposal.

Also included in the proposed appropriation for the Virginia Department of Transportation (VDOT) is $74.9 million GF for the biennium, an increase of over $9.0 million in the current biennium. The funds will be used to continue general fund support for the debt service costs of the Federal Revenue Anticipation Notes (FRANs) issued to replace the $317.0 million of transportation revenues transferred to the general fund in FY 2003.

VDOT's proposed program-level appropriations reflect a significant restructuring of its budgetary programs which is intended to more accurately reflect the activities for which funding is used. There is no net change to the department's budget as a result of these changes.

The introduced budget also adjusts the appropriations for all transportation agencies to reflect historic expenditure levels and revised revenue forecasts. Substantial changes in the VDOT and DRPT revenue forecasts reflected in the appropriations are the result of the elimination of future federal funding for the Woodrow Wilson Bridge and the addition of appropriations to DRPT to reflect anticipated apportionments for the Dulles Corridor Rapid Transit project.

***Independent Agencies.*** The proposed budget provides a net increase of $6.9 million NGF for the biennium for independent agencies. The new spending includes $2.6 million to support increases in the workload of the Virginia Retirement System; $1.5 million to support the Virginia Retirement System's investment department's compensation plan and to cover other increased costs for publications, organizational memberships, and attorneys' fees; and $569,760 to reflect the Virginia Retirement System's continuation costs for the 2.25 percent salary increase granted in November 2003.

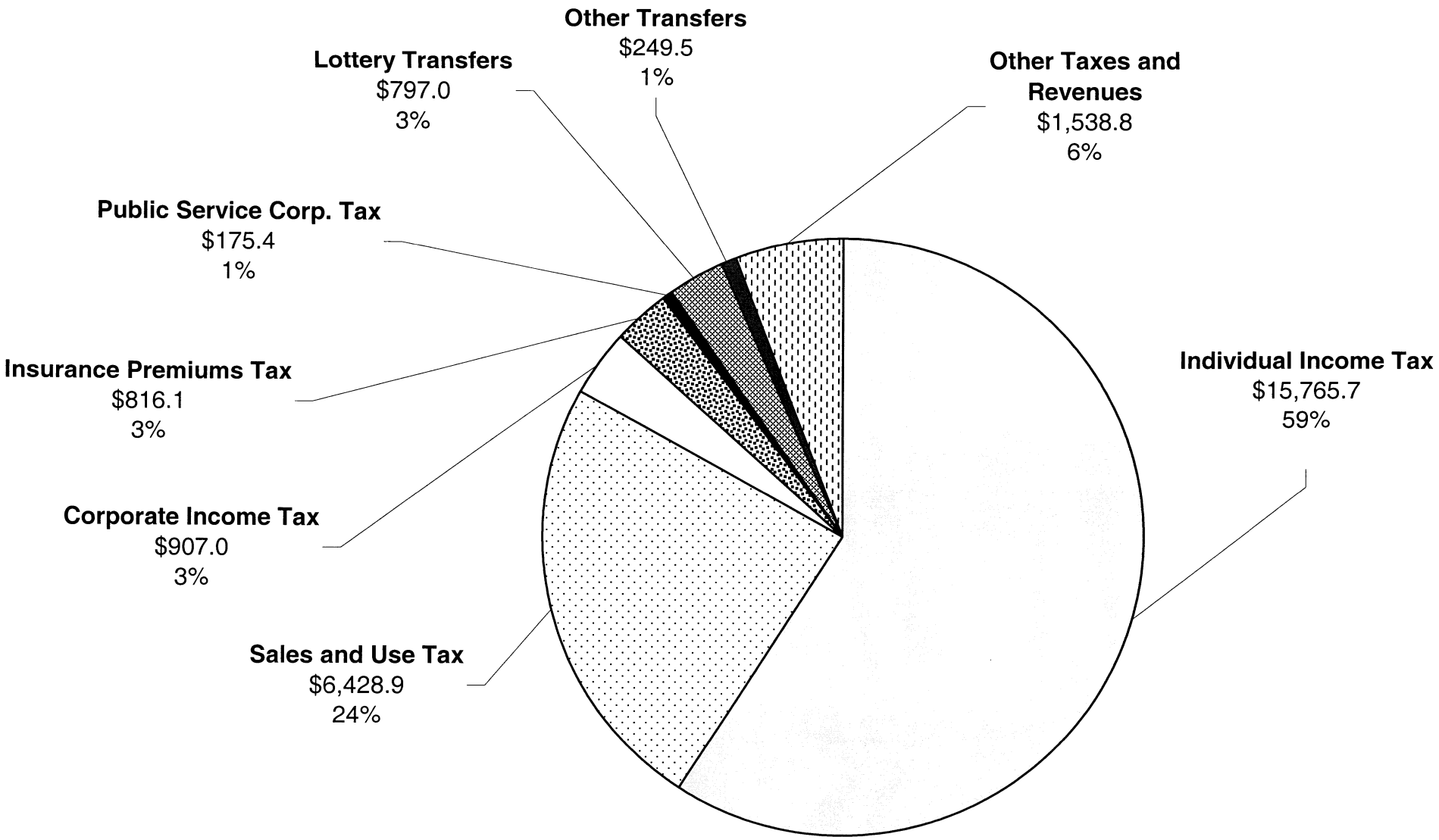
funds, largely for the Maintenance Reserve program. Other capital projects totaling $347.3 million are recommended at a variety of state agencies, to be funded with bonds issued by the Virginia Public Building Authority (VPBA) and the Virginia College Building Authority (VCBA). The budget also includes bonding authority for revenue generating projects totaling $392.2 million. Finally, the budget includes $60.0 million in Virginia Port Authority bonds for improvements at the Norfolk International Terminal.

The Governor also proposes, through separate legislation, $273.3 million in VPBA/VCBA bonds for higher education institutions and state agencies. In addition, another $159.3 million in VPBA debt is proposed for the development of the Statewide Agencies Radio System (STARS). Both of the bills are contingent upon the passage of the Governor's tax proposal.

# 2004-2006 General Fund Revenues = $26,678.4

HB/SB30, as Introduced

($ in millions)

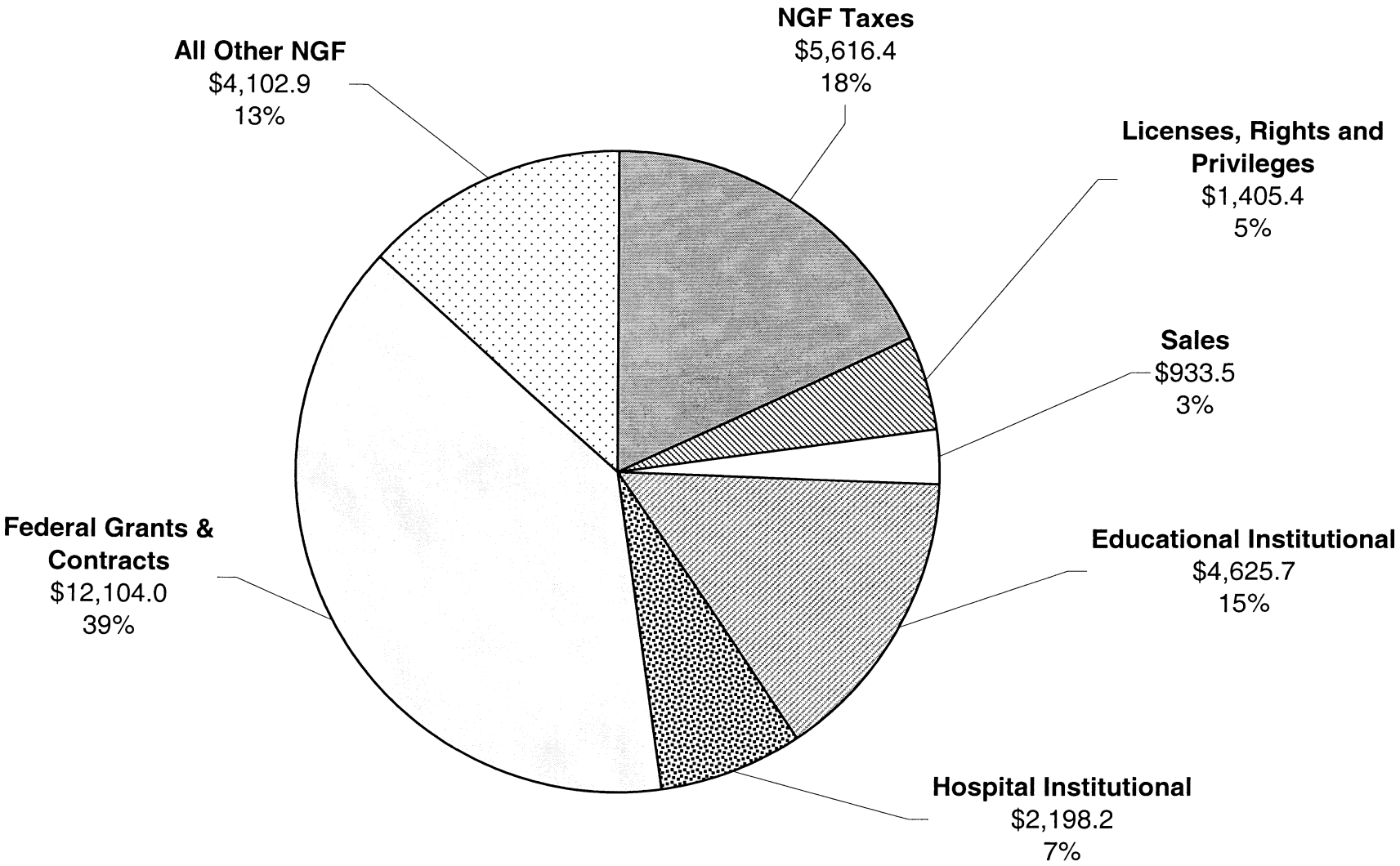



*** Includes revenue from the Governor's tax proposal.**

# 2004-2006 Nongeneral Fund Revenues = $30,986.1

HB/SB30, as Introduced

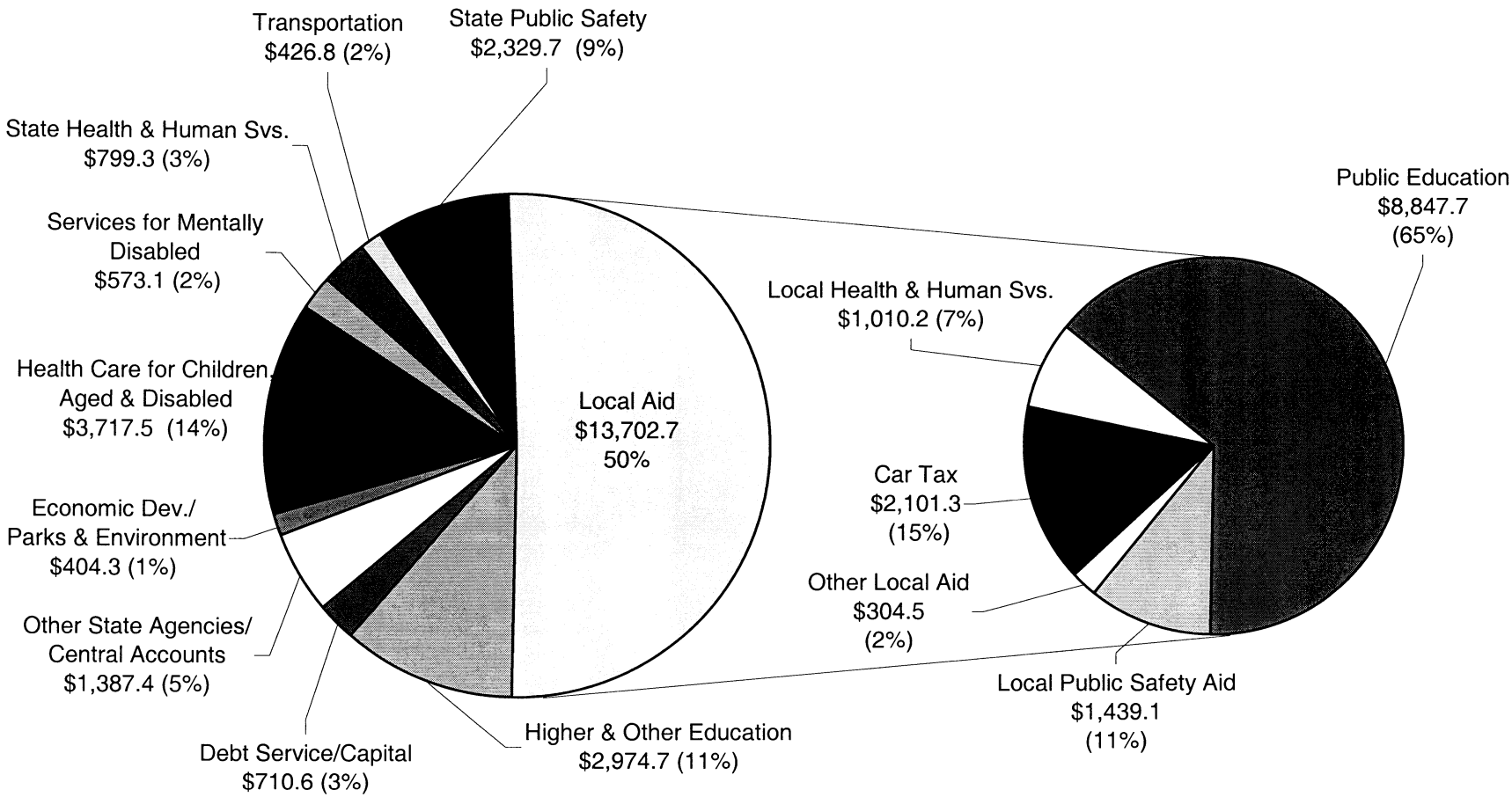
($ in millions)



# General Fund Appropriations FY 2004-2006 = $27,026.2

HB/SB30, as Introduced

($ in millions)

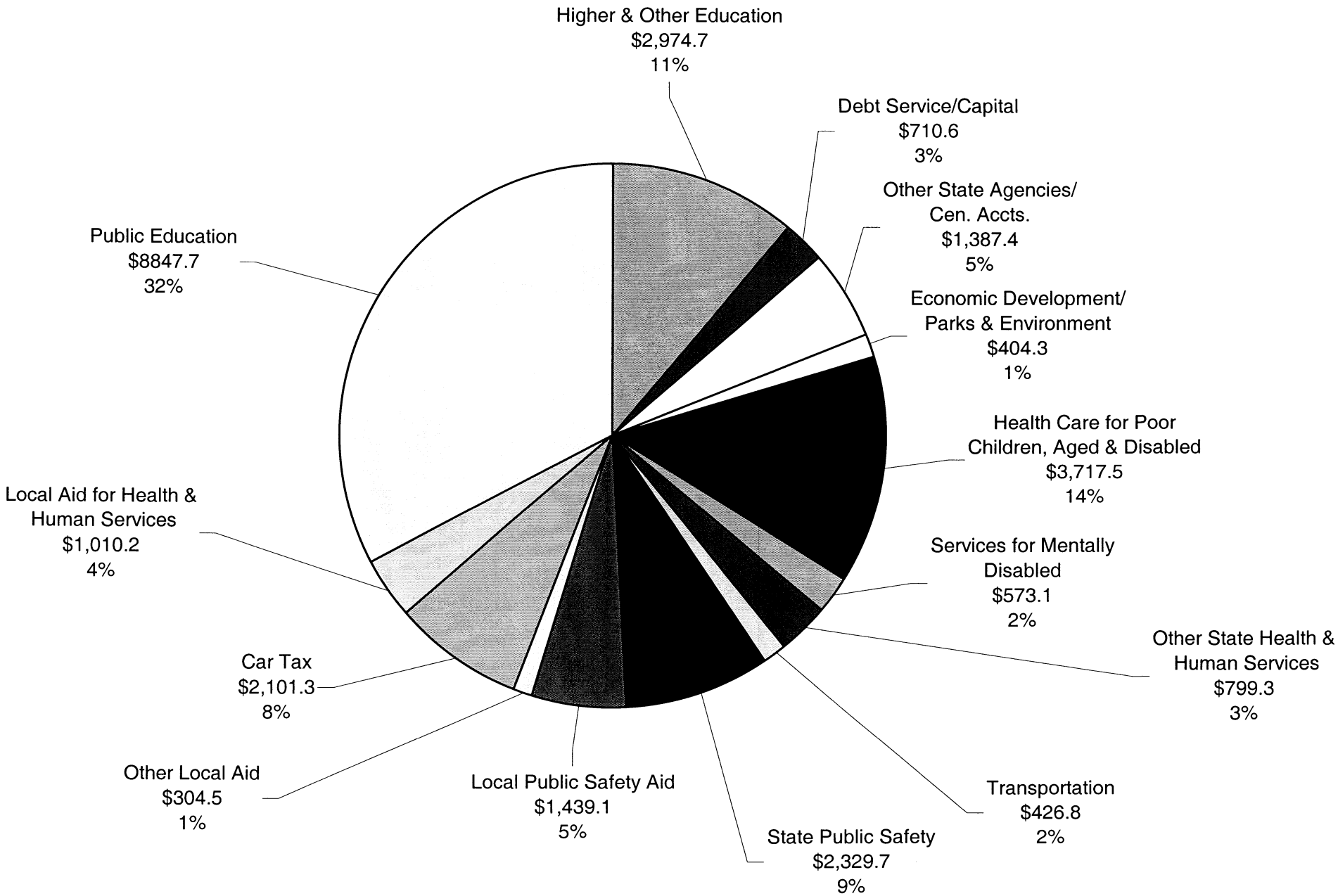



**Note: Numbers may not add to total due to rounding.**



**Revised 12/29/03**

# General Fund Appropriations FY 2004-2006 = $27,026.2

HB/SB30, as Introduced

($ in millions)