

2006 Session

Budget Overview



FY 2006 Revenue Forecast

- General fund tax collections in FY 2006 are projected to exceed the “official” forecast by \$1,214.3 million
 - Represents 6.1 percent growth over FY 2005 levels
- Growth reflects:
 - Impact of FY 2005 surplus
 - FY 2005 actual collections form the “base” against which forecasted growth rates apply
 - Actual collections were approximately \$375 million higher than the “official” FY 2006 forecast
 - Revised economic forecast for jobs and wage and salary growth
- About 90 percent of the forecast revisions reflect adjustments to the 3 sources which have grown most dramatically over the past few years:
 - Nonwithholding - \$581.9 million increase
 - Corporate - \$214.2 million increase
 - Recordation - \$288.2 million increase



Revenue Outlook for FY 2006

Same Three Sources Account for Strength

- Most of the excess revenues in fiscal year 2006 will be driven by the same three sources that have been responsible for the fiscal year 2004 and 2005 surpluses
- Nonwithholding or estimated payments: Up 22 percent in the first quarter
 - FY 05 has not been factored into the current FY 06 estimate
 - Grew 33% over 2004
 - Business profits are up
 - Homebuilders, realtors
 - Lower capital gains tax and stock options
 - S&P 500 is flat
 - Stock options that were previously “underwater” and coming due benefited from lower federal capital gains tax rate
 - Continued use of bonuses
- Corporate income taxes: Collections posted their third consecutive double digit year-over-year growth in FY 2005
 - Strength continues to reflect strong earnings and profits among retailers, defense and oil companies
 - September payment largest ever and bigger than final payment in 2005
- Virginia’s housing market should continue to fuel recordation tax collections through the end of fiscal year 2006
 - Pending home sales have slowdown in Northern Virginia



Year-to-Date Revenues

- General fund revenue collections remain strong through November, tracking ahead of the revised forecast
 - December daily deposits appear to be strong
- Mid-Session forecast will occur in early February
 - Nonwithholding taxes - third estimated payment due by January 15th. This source has been major component of growth
 - Sales tax collections – Was the holiday season bright?
 - Need to look at December and January combined
 - Needs to be well in excess of forecast to accommodate revenue loss from elimination of AST in June
 - Recordation taxes – Growth starting to slow?



House Bill 29 Available Resources

- In addition to the revised revenue forecast of \$1,214.3 million, an additional \$495.4 million from fiscal year 2005 has been carried forward for appropriation
- Majority of FY 2005 year-end balance was already committed pursuant to Constitutional or Statutory requirements
 - Rainy Day Fund
 - Water Quality Improvement Fund



House Bill 29 Spending Overview

- HB 29 contains approximately \$518.1 million GF in increased spending:
 - Rainy Day Fund deposit - \$402.2 million
 - Would reach constitutionally set cap with this proposed deposit
 - Water Quality Improvement Fund deposit - \$56.6 million
 - Required based on FY 2005 surplus
 - Energy and utility cost increases - \$8.1 million
 - Comprehensive Services Act costs - \$7.5 million
 - MHMR Pharmacy Costs- \$5.3 million
 - Maintain State trooper positions - \$5.4 million
 - Criminal fund reforecast - \$5.1 million
 - Property and Casualty insurance - \$4.7 million
 - SOQ technical adjustments - \$4.7 million
 - Adoption Subsidy Program - \$4.4 million
 - Enterprise PPEA - \$3.3 million
 - Miscellaneous other - \$10.8 million

HB 29 Proposed Action Revenue Stabilization Fund

	Balance
6/30/2005 Balance in Fund	\$482,259,307
Required 2006 Deposit (appropriated by 2005 Session)	\$181,936,113
Governor's Proposed Deposit (FY 2007 mandatory deposit)	\$402,224,018
Estimated Interest Earnings	\$14,467,779
Potential Balance 6/30/2006	\$1,080,887,217
Fund Cap FY 2006	\$1,064,664,515
June 30, 2006 Reversion to GF	(\$16,222,702)



House Bill 29 Savings Overview

- Offset by budget savings of \$57.1 million
 - Lower Car Tax reimbursements - \$36.2 million
 - Debt service savings - \$18.5 million
 - Involuntary mental commitment reforecast - \$1.6 million
- Results in HB 29 year-end balance of \$1,242.4 million
 - Starting balance for HB 30



Virginia's Economic Outlook 2006-2008

- Outlook projects that Virginia will continue to out-pace the nation in job, personal income, and wage and salary growth
 - Wage and salary growth is expected to remain strong due to the concentration of high paid jobs being created in NoVA
- Employment growth has moderated in the second half of 2005. The outlook suggests job growth to be below 2%
 - NoVA job growth is expected to lead the state, albeit at a slower rate
 - Business and professional services jobs continue to lead in the “crescent”
 - Information technology sector is expected to see job gains in 2006 through 2008
 - Manufacturing is expected to see further declines
 - Tourism industry should continue to perform well



Revenue Outlook 2006-2008

- General Fund revenue forecast assumes economic growth rates of 6.0 percent in FY 2007 and 5.3 percent in FY 2008
 - Forecast assumes that major economic factors – jobs, personal income, and wage and salary growth – will be around long-term trend levels for expansion period
 - The outlook suggest that withholding and sales tax growth should perform in the 6.0% range
 - Represents approximately 80 percent of gross general fund revenues
 - Sales tax collections expected to fall in line with personal income
 - Cash-out refinancing has slowed down
 - Construction still strong – building materials and supplies
 - Tourism-related sales expected to be strong
 - What impact will energy prices have on sales?



Revenue Outlook 2006-2008

- Forecast reflects a decline in recordation tax revenues, due to rising interest rates and softening of price appreciation seen in recent years
- Corporate taxes are expected to flatten due to increased business spending
- Non-withholding, while volatile, appears to be driven by small businesses and contract employees and resurgence of bonuses in the high wage sectors



Revenue Outlook 2006-2008

■ Risks to forecast

- Consumers account for two-thirds of overall economic activity and will be impacted by higher interest rates and fuel costs
- Federal deficit reduction efforts could impact defense and domestic spending

■ Forecast represents a revenue outlook developed in the fall of 2005 for a period that begins in July 2006 and runs for 24 months

- Updated in February 2006 (Mid-Session forecast)



House Bill 30 Overview

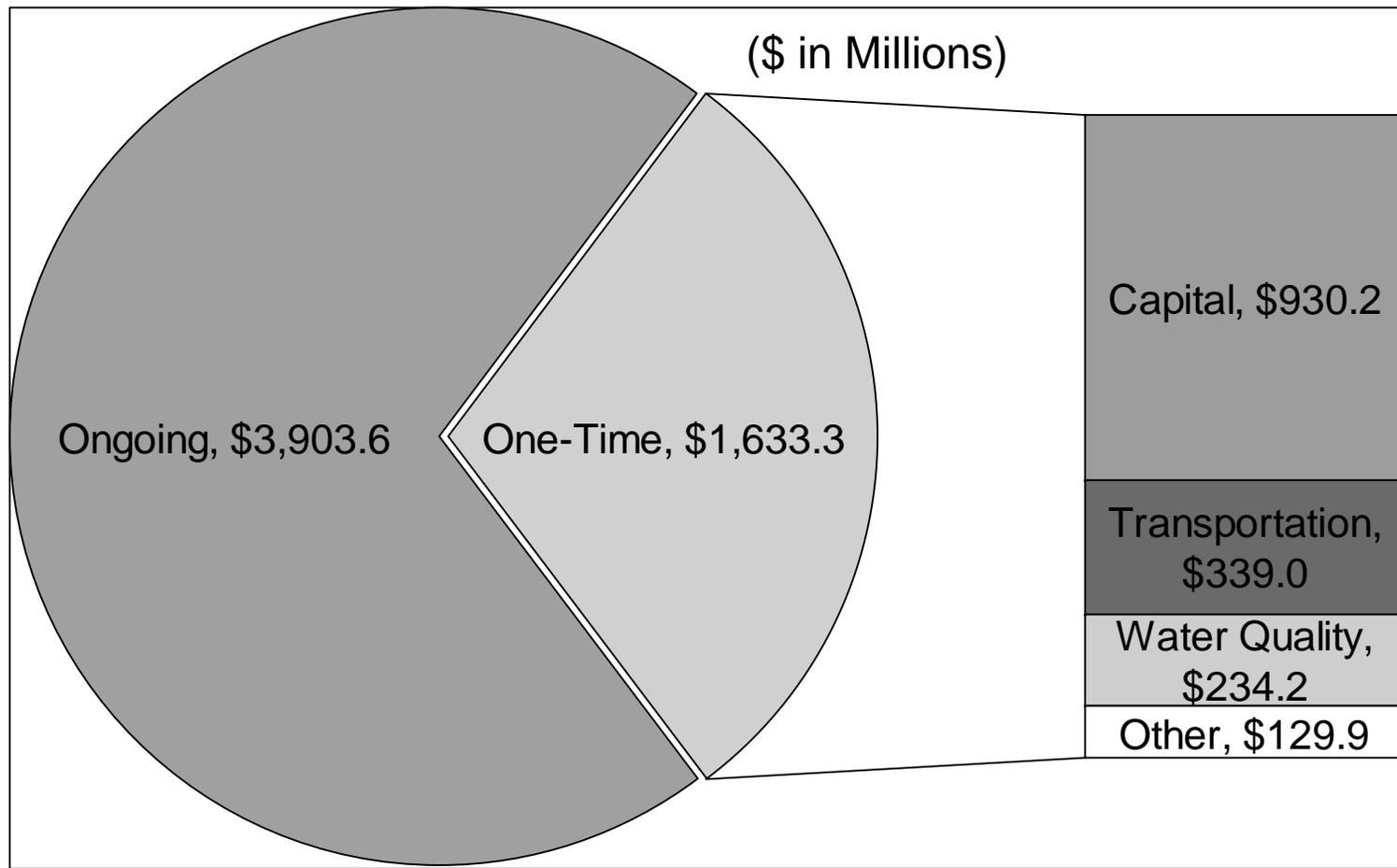
- Based on the revenue forecast for FY 2006-08, and the assumed carry forward from FY 2006, approximately \$5.6 billion in net new GF resources is available in HB 30 after base budget is funded
- Proposed utilization of funds is as follows:
 - \$4,606.7 million in GF operating increases
 - \$930.2 million in GF capital
 - \$44.6 million unappropriated balance



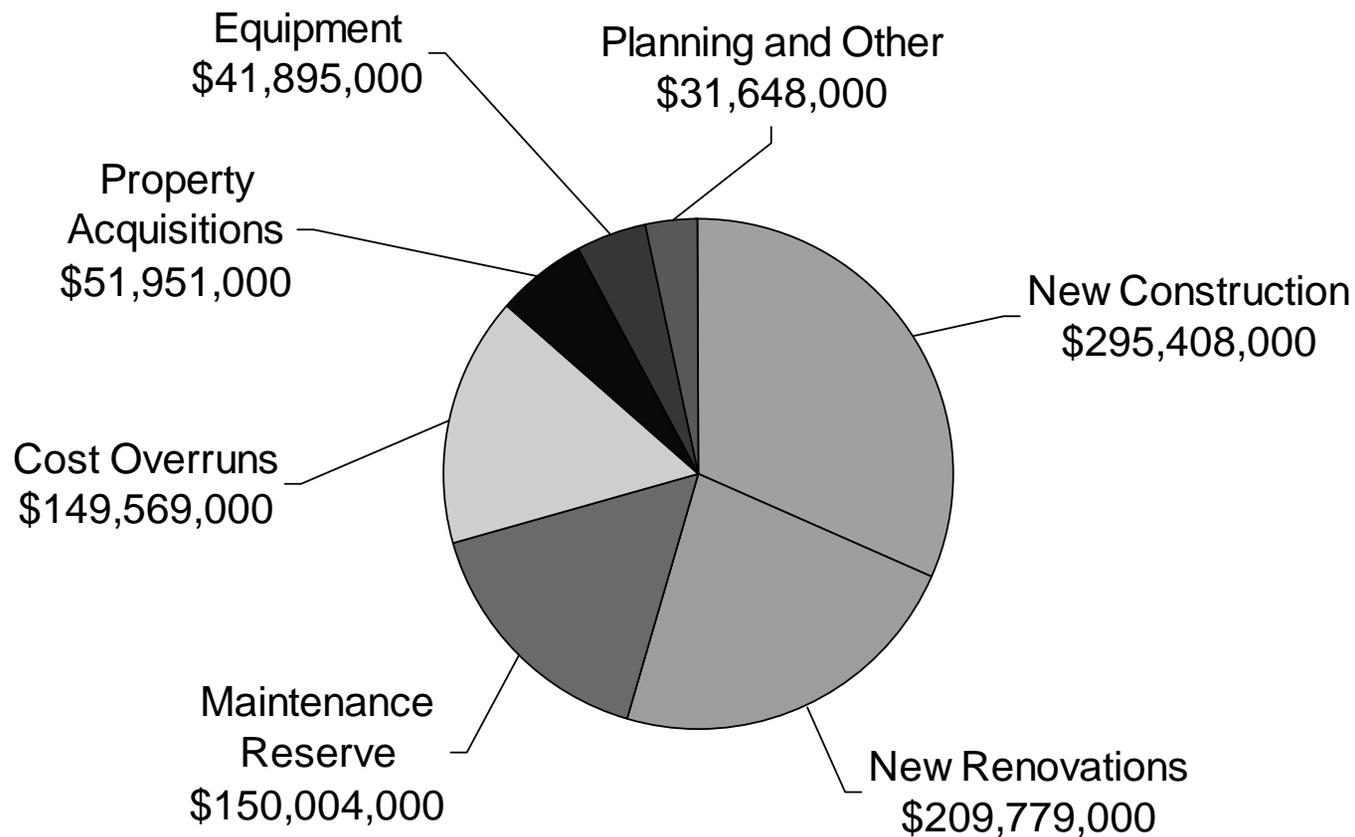
Spending Increases in HB 30

- Major categories of spending in proposed budget:
 - Mandatory - \$2.6 billion: Driven by federal or state law i.e., SOQ re-benchmarking, Medicaid, adult and juvenile corrections, debt service, Sheriff's funding (jails and law enforcement), 599 funding
 - New Initiatives - \$244.6 million: Higher education research, establish GF fire program grants, creation of early childhood foundation, debt service on proposed new facilities, enterprise system PPEA, BRAC response grants, creation of new college in Martinsville, education for a lifetime
 - Program Expansions - \$354.9 million: Medical provider rate increases, mental health restructuring, MR waivers, K-12 cost of competing expansion, No Child Left Behind, higher education financial aid/TAG, increased public defender staffing, constitutional officers staffing, park operations
 - Compensation - \$520.2 million: Salary increases for state employees, faculty, teachers and state-supported local employees as well as fringe benefit, i.e. VRS, group life and state employee health insurance
 - Other Spending - \$356.9 million: Higher education base adequacy, rent and utility cost increases
 - Transportation - \$339.0 million
 - Water Quality - \$232.7 million
 - Capital - \$930.2 million

One-Time Spending as Share of Total New Spending



Capital Outlay Spending By Type



HB 30 Resources and Spending

\$ in millions	FY 2007	FY 2008	Biennium
FY 2006 Net Balance Forward	\$1,242.4		\$1,242.4
GF Revenue (baseline forecast) includes Lottery and Transfers	\$16,180.9	\$16,996.0	\$33,176.9
Total Resources Available	\$17,423.3	\$16,996.0	\$34,419.3
Base Budget	\$14,418.9	\$14,418.9	\$28,837.8
Net Resources Available	\$3,004.4	\$2,577.1	\$5,581.5
Proposed Operating Spending	\$2,392.1	\$2,214.6	\$4,606.7
Proposed Capital Spending	\$610.6	\$319.6	\$930.2
Balance	\$1.7	\$42.9	\$44.6

HB 30 Selected Spending

GF \$ in Millions	FY 2007	FY 2008	Total
Transportation: Governor's Initiative	477.8	146.7	624.5
Public Education: Rebenchmarking Costs	557.4	632.1	1,189.5
December 2006 Salary Increase (<i>state, higher education faculty, state-supported local, and public school teachers</i>)	\$131.5	\$233.5	\$365.0
VRS Employer Rate Increase (<i>retirement, group life, retiree health credit and VSDP</i>)	\$118.0	\$120.4	\$238.4
State Employee Health Insurance Employer Rate Increase	\$34.8	\$36.3	\$71.1
Higher Education Enrollment Growth & Base Adequacy	101.4	101.4	202.8
Higher Education Research Initiative	87.1	15.3	102.4
Higher Education Undergraduate Financial Aid / TAG	17.7	22.3	40.0
Capital Outlay New Construction	139.2	156.2	295.4
Capital Outlay New Major Renovations	133.9	75.9	209.8
Capital Outlay Cost Overruns	149.1	0.5	149.6
Wastewater Treatment Plant Improvements: Chesapeake Bay	200.0	0	200.0
Wastewater Treatment Plant Improvements: Southern Rivers	25.0	0	25.0
Combined Sewer Overflow Projects	7.5	0	7.5

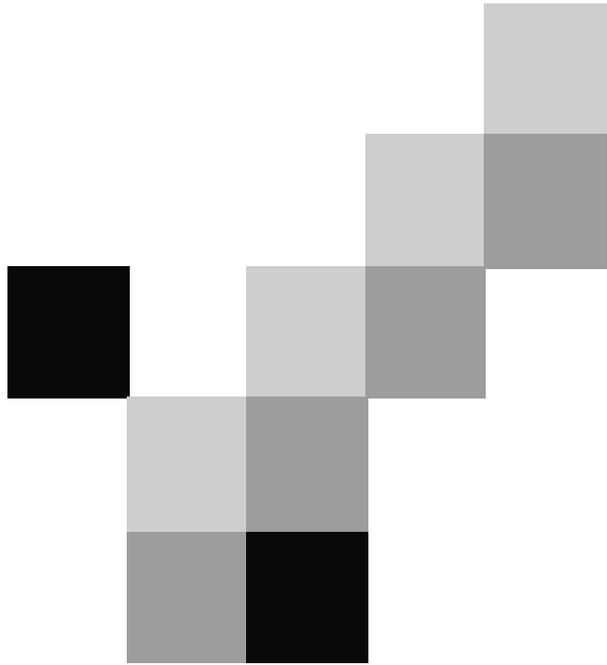
HB 30 Selected Spending

GF \$ in Millions	FY 2007	FY 2008	Total
Medicaid Utilization and Inflation	\$164.6	\$319.0	\$483.6
MHMR Restructuring	\$56.1	\$64.5	\$120.6
Medicare Part D Payment	\$37.9	\$42.3	\$80.2
Comprehensive Services Act	\$15.8	\$32.6	\$48.4
Foster Care and Adoption Assistance	\$12.5	\$16.4	\$28.9
MHMR Community and Facility Medication Costs	\$6.3	\$8.7	\$15.0
TANF Shortfall and VIEW Daycare Costs	\$6.8	\$8.0	\$14.8
FAMIS & SCHIP (children's health insurance) Enrollment & Costs	\$3.1	\$8.6	\$11.7
Open & Operate New DOC Correctional Facilities	\$23.2	\$70.0	\$93.2
"HB 599" Program	\$11.6	\$22.2	\$33.8
State Police: Staffing and Replacement of Information Systems	\$7.2	\$8.5	\$16.0
Fire Programs General Fund Match	\$12.0	\$0	\$12.0
Central Appropriations: Semiconductor Manufacturing Grants	17.2	24.9	42.1
Central Appropriations: Governor's Opportunity Fund	21.0	0.0	21.0
Central Appropriations: NASCAR Incentive	15.0	0.0	15.0

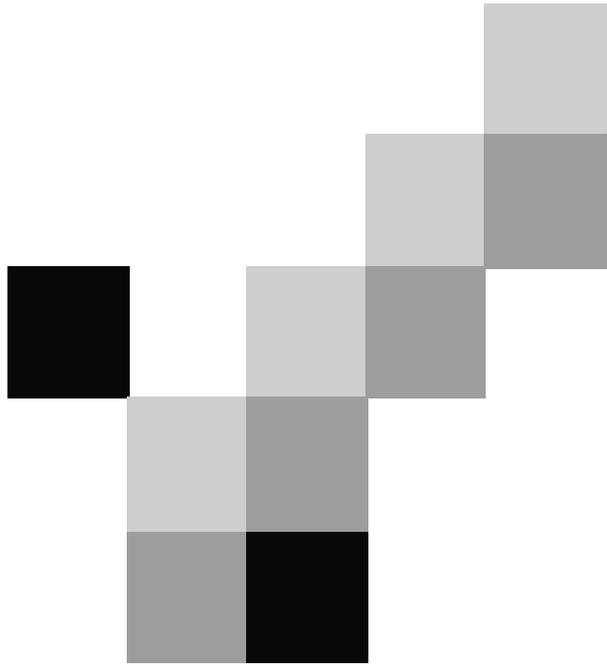


HB 30 Selected Spending

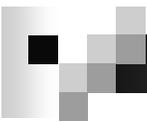
GF \$ in Millions	FY 2007	FY 2008	Total
Agriculture and Forestry (New Initiatives and Program Expansions)	2.6	1.9	4.5
Commerce and Trade (New Initiatives and Program Expansions)	12.5	7.5	20.0
Funding for Drug Courts	2.5	2.5	5.0
Criminal Fund Caseload Growth	9.3	9.3	18.6
Constitutional Officer Staffing	4.7	7.5	12.1
Line of Duty Act Payments	3.5	6.2	9.7
Court-Appointed Attorney Rate Increase	1.3	2.5	3.8
Increase Staffing for Public Defenders	1.2	1.1	2.3
Operational Support and Staffing for State Parks	1.6	1.6	3.2



Details by Secretarial Areas

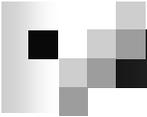


Transportation



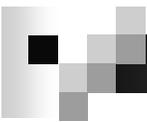
HB 30: Governor's Transportation Proposal

- Provides a total of \$624.5 million in new GF for transportation over the biennium
 - Includes \$285.5 million representing 1/3 of insurance premium tax revenues
 - Ongoing commitment
 - Also proposes \$339.0 million GF in the first year as one-time spending for specific transportation projects
- Funds are appropriated to both VDOT and DRPT



HB 30: Governor's Transportation Proposal - VDOT

- Insurance Premiums: deposits \$228.9 million GF (\$111.3 million in FY 07 and \$117.6 million in FY 08) to the Priority Transportation Fund (PTF)
 - Represents estimated share of insurance premium tax revenues derived from auto insurance premiums – about 27 percent of total tax
 - Would be used to pay debt service on all outstanding FRANS
- One-time GF Support: provides \$284.0 million in the first year for identified highway projects
 - \$142.0 million used to pay the required federal match on all demonstration projects included in the new federal highway authorization bill, SAFETEA-LU
 - Includes highway and transit projects as well as bike and pedestrian facilities, trails and visitor centers
 - \$142.0 million provided to supplement existing priority projects, as follows:
 - Route I-66 Westbound - \$16.0 million
 - I-264/64 Interchange - \$30.0 million
 - Route 164 Rail Relocation - \$15.0 million
 - Route 460/Coalfields Connector - \$36.0 million
 - Route 58 – Hillsville Bypass - \$45.0 million



HB 30: Governor's Transportation Proposal - DRPT

- Insurance Premiums: dedicates \$56.6 million GF (\$27.5 million in FY 07 and \$29.1 million in FY 08) to the existing transit capital fund
 - Represents the portion of the 1/3 of insurance premium tax revenues dedicated to transportation by law that is not attributable to auto insurance premiums – 6 percent of total collections
 - These amounts would increase reimbursements to localities for transit capital expenditures to more than 50 percent
- One-time GF Support: provides \$55.0 million in the first year for identified transit and rail projects, as follows:
 - \$20.0 million for Metro capital improvements
 - \$15.0 million for VRE rolling stock purchases
 - \$9.0 million for an intermodal facility in the Route 460 corridor
 - \$1.0 million to promote teleworking in the Commonwealth



HB 30: Other VDOT Actions

- Requires biennial assessment of needs for maintaining and operating existing highway system
 - New requirement
 - Modeled on K-12 SOQ rebenchmarking
- Intermodal planning
 - Office of Intermodalism to recommend projects to be funded with federal planning funds to the Commonwealth Transportation Board
 - Authorizes \$1.0 million in planning funds for a statewide freight study
- Reduces agency's maximum employment level (MEL) by 377 positions
 - New maximum set at 9,945
 - Reflects employment level above current fill rate – no reductions in force required



HB 30: Other DRPT Actions

- Department of Rail and Public Transportation
 - Appropriates to rail enhancement fund the 3 percent share of rental vehicle taxes pursuant to 2005 legislation (\$23.7 million NGF in FY 2007 and \$24.2 million NGF in FY 2008)
 - Appropriates local revenues dedicated to the Dulles Rail Project (\$62.5 million NGF in FY 2007 and \$158.6 million NGF in FY 2008)
 - Proposes an increase in the Transportation Efficiency Improvement Fund (TEIF) of 25 percent, or \$1.0 million NGF each year
 - Adds 10 additional positions to staff Dulles Rail Project and two new positions to handle field audits and information technology



HB 30: Other Modes

- Department of Aviation

- Appropriates \$4.5 million NGF in FY 2007 and \$500,000 in FY 2008 to finance replacement of the state plane with a combination of cash purchase and master equipment lease program funding

- Virginia Port Authority

- Increase funding for port security – appropriates a total of \$3.1 million over the biennium to increase security at ports in the region, including Maersk terminal
- Increase Commonwealth Port Fund and special fund debt service appropriations by a total of \$16.6 million for various projects, including issuance for NIT North improvements

HB 30: Department of Motor Vehicles

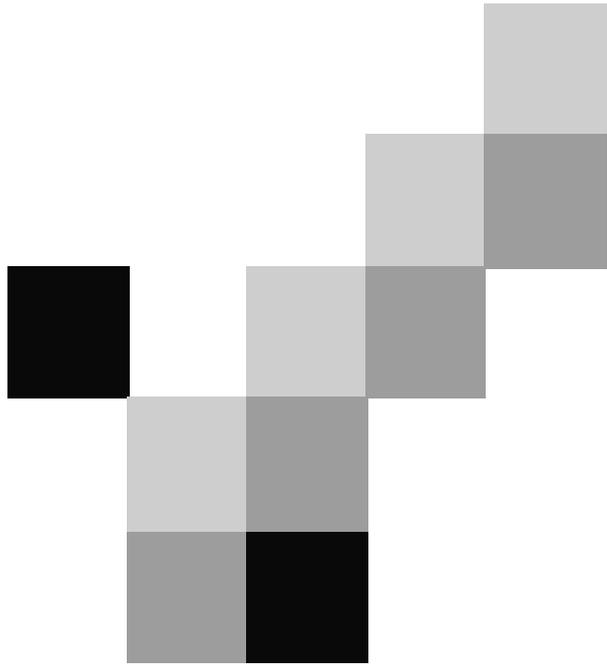
- Re-engineer DMV's major computer systems
- Fund through master equipment lease program with payments required through FY 2011
- Fund sources:
 - Uninsured motorist fund (\$3.2 million in FY 07, \$6.4 million in FY 08),
 - Jamestown 2007 vehicle registration fee (\$1.0 million in FY 07, \$3.0 million in FY 08)
 - Federal safety grants (\$1.5 million in FY 07 and \$1.2 million in FY 08)

System	FY 2007	FY 2008
Citizen Services Systems	1.7 million	7.4 million
Document Imaging	1.5 million	0.7 million
Hauling Permit	0.3 million	0.3 million
Traffic Records (crash data)	1.5 million	1.3 million



HB 30: Department of Motor Vehicles

- Funding also is provided for initial implementation of federal “Real ID” Act
 - \$1.5 million NGF in FY 2007
 - \$254,190 NGF in FY 2008
 - Funding is primarily for programming changes to link with Social Security Administration and other state DOTs
 - DMV anticipates substantial yet unquantifiable costs associated with implementing this unfunded federal mandate
- Central Issuance of Driver’s Licenses
 - Proposes \$540,433 NGF in the first year and \$556,646 NGF in the second year to cover postage and related costs for central issuance
 - DMV is negotiating contract with a vendor to implement this program and may be seeking additional funding for this activity
 - This effort is designed to deter fraud and identity theft



Agriculture and Forestry



HB 30: Agriculture and Forestry

- First biennial budget with Secretariat separated from Commerce and Trade
- Total new funding proposed is \$4.5 million over biennium

\$ in millions

VDACS: Establish organic marketing group 0.2

VDACS: Adjust veterinarian salaries 0.2

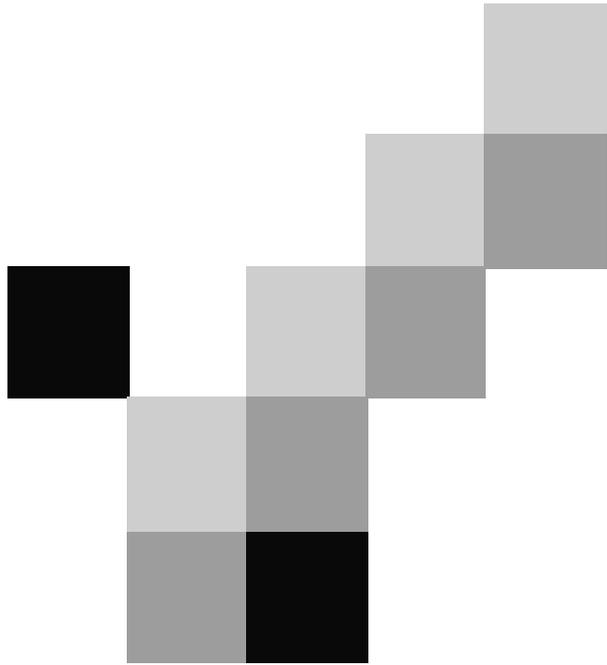
VDACS: Field positions for animal health 0.4

Forestry: Establish Water Quality Team 1.3

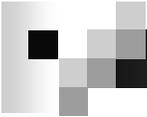
Forestry: Purchase fire fighting equipment – MELP 1.2

Forestry: Reforestation of Timberlands 0.5

Forestry: Increase training and development 0.3



Commerce and Trade



HB 30: Commerce and Trade

\$ in millions

DBA: Increase Workforce Services Funding	0.5
DHCD: Rural access to broadband technology	4.2
DHCD: New regional R and D Centers	2.5
DHCD: Allegheny Highlands eco development	1.0
DHCD: Homeless programs administration	0.4
DMME: Fund three new mineral inspectors	0.5
DMME: Increased energy and mineral workload	2.0
DMME: Use of GF balance for alt fuels incentive	3.0
VEDP: Currency losses & India/China presence	0.6
VEDP: Additional advertising funding	1.0
VTA: Increase leveraged advertising programs	1.0
VTA: Market Jamestown 2007	1.8
TOTAL Increased Spending:	20.0



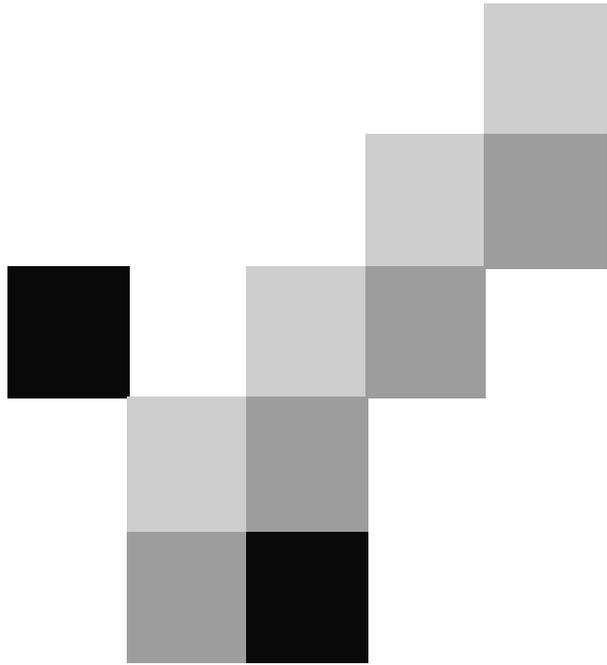
HB 30: Incentive Programs

- Semiconductor Manufacturing Incentive Grants
 - Phase 1 grants total \$13.4 million
 - \$3.0 million each year to Infineon
 - \$3.7 million each year to Micron
 - Phase 2 grants begin this biennium
 - Payments to Infineon total \$23.7 million
 - Micron not yet eligible for payments
 - Introduced budget also includes \$5.0 million in semiconductor manufacturing education grants
 - \$3.0 million to VCU (linked to Infineon)
 - \$2.0 million in Northern Virginia (linked to Micron)



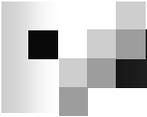
HB 30: Incentive Programs

- Virginia Investment Partnership Grant Program
 - This is first time payments under this program have come due because of the lag in payments – 5 years after performance
 - Grants will total \$1.6 million over biennium
 - Total of \$65.7 million in grants have been approved to companies that appear to be meeting performance expectations. Payout schedule through FY 2018
- Governor's Opportunity Fund
 - Provides \$21.0 million in FY 2007, this matches the biennial amount provided in FY 2004-06



Public Education

Elementary and Secondary



HB 29: Public Education Direct Aid Spending

GF \$ in millions

Replace Funds Transferred for Technical Corrections to FY 2005	\$8.9
<u>Technical Updates for:</u>	
Net Sales Tax Estimates	18.5
Restore funding for full participation: At-Risk 4yr Olds	6.5
2005 Triennial Census	2.0
English-as-a-Second Language program lower enrollment	(1.5)
Education for a Lifetime: Teacher Mentor & Teacher Corps	(1.7)
Remedial Summer School lower participation	(2.8)
Lottery Revenue estimate: NC impact	(3.2)
Average Daily Membership (ADM) lower projection	(7.8)
Incentive-based programs non-participation savings	<u>(14.2)</u>
Total Impact to Direct Aid	\$4.7



HB 30: Public Education Total Spending

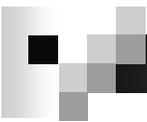
GF \$ in millions

Direct Aid Re-benchmarking costs	\$1,189.6
Teacher 3% Raise	167.6
VRS, Group Life, RHCC rate changes	165.9
Program Expansions	10.1
New Initiatives	6.6
Budget Savings	(38.9)
Department of Education	<u>3.7</u>
Total	\$1,504.6



HB 30: Re-Benchmarking Costs in Direct Aid

	<u>\$ in millions</u>
Basic Aid Updates	\$547.2
Enrollment and ADM	139.0
Funded Salaries in Basic Aid SOQ Positions	255.7
Sales Tax	185.0
Triennial School Census	7.8
Composite Index	41.3
Categorical Initiatives	<u>13.5</u>
Total Direct Aid	\$1,189.5



HB 30: Public Education Direct Aid Spending

- Re-Benchmarking SOQ Components:
 - Increased enrollment
 - Increases in March 31st Average Daily Membership (ADM)
 - 6,201 additional students in FY 2007
 - 11,235 students in FY 2008
 - Annual School Report (ASR) cost data updated
 - Total cost for education reported from all sources by each school division - change in prevailing costs 2002 to 2004
 - SOQ positions' salary adjustments
 - Elementary teacher salary increased by 5.35%
 - Principal, asst. principal, instructional asst. up an avg. 6.2%
 - Fringe benefits rate changes
 - VRS professional rate: 6.62% to 9.20%, non-prof: 4.94% to 7.48%
 - Group Life Premium re-instated at 0.49%
 - Health Care: \$3,269 to \$4,301



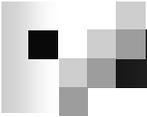
HB 30: Public Education Direct Aid Spending

- Re-Benchmarking SOQ Components:
 - Composite Index components updated
 - Changes in local 'ability to pay' as calculated by the education funding formula: uses true real estate values, adjusted gross income, and sales tax
 - Base year data: 2001 to 2003
 - 82 divisions went down, 46 went up, 8 remained the same
 - Textbooks
 - Increased from \$63 to \$102, or 61.3%
 - Support Inflation Factor
 - 2st quarter 2003 to 4th quarter 2005



HB 30: Teacher Compensation

- Governor's introduced budget proposes a 3% salary increase for all instructional and support SOQ positions: December 1, 2006 - \$167.6 million GF
 - FY 2007 \$61.4 million GF
 - FY 2008 \$106.2 million GF



HB 30: Program Expansions in Direct Aid

- Increase funding for the Education for a Lifetime Initiative - \$5.1 million GF
 - No Child Left Behind Initiative: Virtual Advanced Placement testing fees - \$4.4 million GF
 - No Child Left Behind Initiative: Path to Industry Certification awards - \$749,100 GF
- Phase-in funding for adding the Cost of Competing Adjustment to localities that are adjacent to Planning District 8 and have over 45% of the out-commuting work force traveling into the region - \$4.8 million GF
 - 10% - \$1.4 million GF
 - 25% - \$3.4 million GF
- Increase funding for Project Discovery - \$100,000 GF each year



HB 30: New Initiatives in Direct Aid

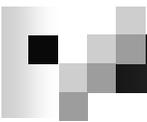
- **New funding to Education for a Lifetime for Incentives for Hard-to-Staff Schools - \$6.1 million GF**
 - Pilot Program – 3 years contract commitment to teach
 - Provides up to \$15,000 in relocation costs
 - Provides highly qualified teachers already teaching in the participating hard-to-staff schools annual incentives to stay:
 - \$3,000 bonus
 - \$500 stipends for training and professional development
 - Second cohort
 - Provides transferred teachers a stipend equal to 30% of average teacher salary for division
 - Provides highly qualified teachers already teaching in the participating hard-to-staff schools a stipend equal to 10% of average teacher salary for division
 - All other teachers in the schools receive a \$500 stipend for participating in training to become eligible as a highly qualified teacher
 - Participating schools receive \$150 per student additional funding
- **One-time funding in FY 2007 for Communities-in-Schools supplemental education program - \$500,000 GF**



HB 30: Budget Savings in Direct Aid

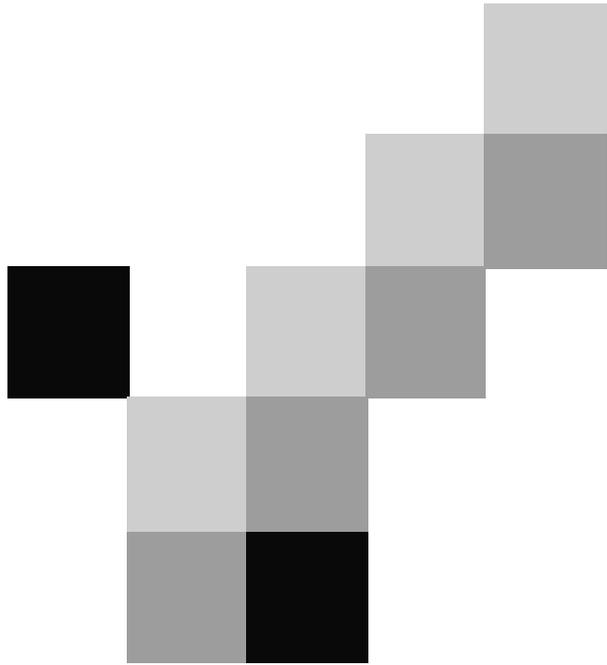
- Reduced Lottery revenue estimates - decrease based on impact of North Carolina starting lottery
 - \$12.2 million GF

- Incentive-based programs – decrease due to lower participation among school divisions
 - \$26.7 million GF
 - Primarily among at-risk four-year old program



HB 30: No Child Left Behind (NCLB) Federal Initiative

- Expand Statewide Student Information System:
\$1.3 million GF
 - System enhances student level data collection, analysis, and reporting requirements for NCLB
- On-line Student Career Planning System –
\$1.0 million GF
- Increase funding for “Race to the GED” initiative -
\$410,000 GF
- Increase funding for Teacher Turnaround
Specialists - \$144,000 GF



Higher Education



Higher Education Spending

- New GF spending totaling \$451.3 million is proposed in HB 30
- Almost the entire amount of new spending reflects ongoing commitments
 - While the research initiative is only funded in the first year, institutional budget requests indicate that this funding must continue



HB 30: Higher Education Institutions

- Funding to address institution base operations and enrollment

	<u>GF \$ in millions</u>
Base Operating Needs / Enrollment	\$202.7
Misc. Operating / VITA / Rent	10.6
Operation and Maintenance of New Facilities	<u>9.7</u>
Total	\$223.0



HB 30: Student Aid

- Student Financial Aid
 - Additional \$21.7 million GF over the current \$84.2 million GF level
 - Tuition and fee increase assumptions are not stated however every institution is increased by at least 8 percent
- Tuition Assistance Grants (TAG)
 - \$13.3 million GF increase
 - Attempts to increase maximum award for Virginia undergraduate students attending private colleges from \$2,500 to \$3,000 by FY 2008
- Military Tuition Waivers
 - \$5.0 million GF to reimburse institutions for tuition waivers on military spouses and dependents
 - Overrides Code and extends eligibility to two years



HB 30: Funding for New Initiatives at Colleges and Universities

- About \$121.1 million GF is earmarked for new initiatives

	<u>GF \$ in millions</u>
Research Initiative (excludes Inst. For Adv. Research)	\$97.9
VCCS Middle College	9.6
New Southside College	4.5
VIMS Chesapeake Bay Assessment	2.9
New Programs - Radford (Nursing Sim) / UVA-W (Comp Sci)	2.6
NSU Materials Research	1.6
Other: ODU (Wind Tunnel), UVA (Virginia Folklore), VSU (Network Telecommunications)	<u>1.9</u>
Total for New Initiatives	\$121.1



Research Initiative

- \$97.9 million GF for new initiatives and expanded programs
 - The majority of this initiative is one-time and funded only in FY 2007
 - Based on institutional requests and previous research funding, a continuation of this funding is likely to be necessary beyond FY 2007
 - Biomedical research - \$56.0 million to recruit faculty at VT, UVA, VCU and GMU; \$1.0 million for VCCS to provide training
 - Modeling and Simulation - \$15.5 million for ODU, EVMS and the Virginia Economic Development Partnership to expand modeling and simulation research capabilities in the Tidewater region; \$0.9 million for VCCS to provide training
 - Research equipment under HEETF - \$4.6 million to lease \$26.5 million in equipment
 - Re-establish Technology Research Fund - \$10.0 million in FY 2007
 - Graduate financial aid - \$5.0 million in each year or about a 40 percent increase
 - Interest earnings on federal fund and indirect cost balances
 - Applies to all institutions of higher education
 - \$16.6 million impact on the general fund revenue stream



Restructuring Agreements

- Language in Part IV provides for approval of the agreements for UVA, VT and CWM
- The Governor has proposed revisions to the performance standards submitted by SCHEV on October 1, 2005
- The Governor has proposed financial and administrative requirements



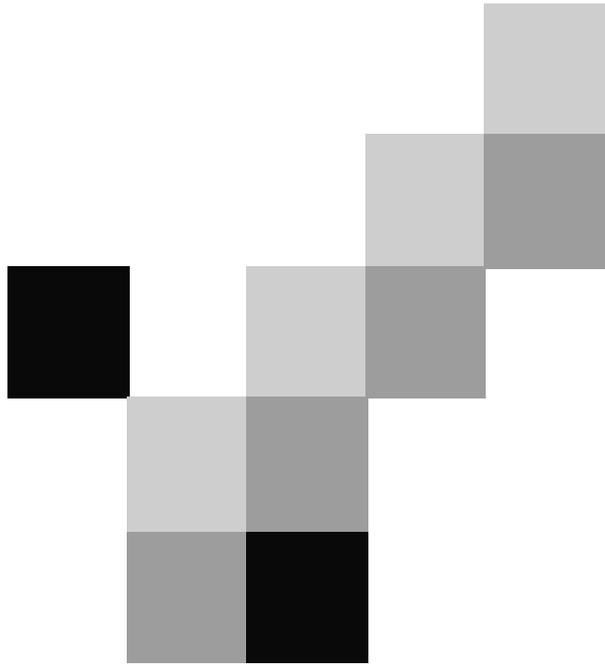
HB 30: Other Higher Education Spending

- \$44.0 million GF for 3.6 percent average faculty salary increase in FY 2007
- \$9.2 million GF in FY 2008 for lease payments on equipment purchased through the Higher Education Equipment Trust Fund (HEETF)
 - \$103.4 million of new academic computers and equipment to be acquired over the biennium
- \$2.4 million GF for computing system upgrades
- \$5.7 million GF for existing regional higher education centers
- \$2.8 million GF for the Virtual Library (VIVA) and Eminent Scholars programs
- \$2.3 million GF for undesignated operating costs at CNU and NSU
 - Not based on guideline calculations



HB 30: Other Education Agencies

- New GF spending totaling \$12.4 million is proposed in HB 30
 - \$4.1 million for increase to arts grants
 - \$3.6 million in base operating support / VITA / rent
 - \$2.9 million for new staff and programs at the Library of Virginia and Museum of Fine Arts
 - \$0.9 million for operations and maintenance of new facilities coming on-line in the 2006-08 biennium
 - \$0.8 million for state aid to public libraries



Capital Outlay



HB 29: Capital Outlay & Treasury Board

- Reductions to debt service in Treasury Board of \$18.5 million GF due to refunding and draw schedule changes
- \$81.0 million in VPBA bonds to construct a new facility to replace Western State Hospital



HB 30: Treasury Board

- Treasury Board Debt Service
 - **Previously authorized** projects - \$92.6 million GF
 - **New** capital projects proposed in HB 76 for mental health institutions - \$7.1 million GF
 - Phase II of the Statewide Agencies Radio System (STARS) - \$13.6 million GF (HB 83)



HB 30: Capital Outlay

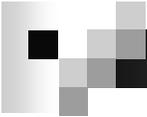
- HB 30, as introduced, provides over \$2.1 billion in capital outlay funding
- In addition, \$461.4 million in tax-supported debt is proposed for mental health institutions, STARS Phase II, and undesignated research projects
 - Including HB 29, VPBA / VCBA debt totals \$541.9 million



HB 30: General Fund Projects

\$930.3 million GF

	<u>GF \$ in millions</u>
New Construction Projects	\$ 295.4
New Major Renovation Projects	209.8
Capital Maintenance Reserve	150.0
Cost Overruns on Previously Approved Projects	149.6
Equipment for Projects Scheduled to Open 2006-08	41.9
Property Acquisitions	52.0
Planning and Other	<u>31.6</u>
Total General Funds	\$930.3



HB 30: Nongeneral Fund Supported Capital Projects

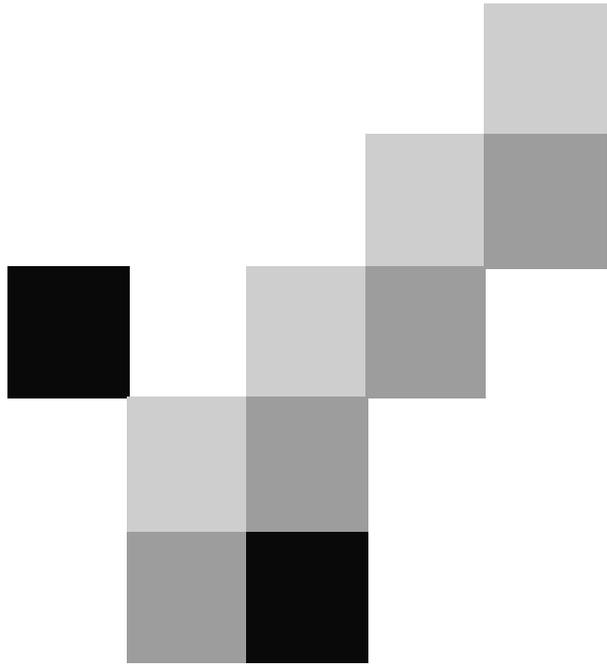
- Projects funded through nongeneral funds (e.g. gifts, federal funds, auxiliary enterprise revenues, and port revenues)

	<u>NGF \$ in millions</u>
Virginia Port Authority (VPA) Bonds	\$ 90.0
9(c) Revenue Bonds	240.2
9(d) Nongeneral Fund Revenue Bonds	466.6
Nongeneral Funds	<u>416.0</u>
Total Nongeneral Funds	\$1,212.8



Other Capital

- Part V of the budget bill authorizes \$50.0 million in VCBA tax-supported bonds for undesignated research projects
- Two separate pieces of legislation would authorize additional capital outlay beyond the amounts proposed in HB 30
 - Statewide Agencies Radio System (STARS) - \$201.9 million in bonds from the VPBA for phase II of this project (HB 83)
 - About \$13.6 million of the debt service is included in the Treasury Board to support the STARS project
 - \$209.5 million from the VPBA for mental health institution projects (HB 76)
 - About \$7.1 million of the debt service is included in the Treasury Board to support these projects



Health & Human Resources



HB 29: Health & Human Resources

- \$30.8 million GF in increased spending
 - Adoption Subsidy Program: \$7.8 million
 - Comprehensive Services Act: \$7.5 million
 - Medicaid utilization and inflation: \$7.0 million
 - Shortfall in MHMR facility and community pharmacy: \$5.3 million
 - TANF shortfall and VIEW day care: \$1.6 million
 - Outsource payroll process for certain Medicaid services: \$1.0 million

- \$11.7 million GF in savings
 - FAMIS & Medicaid SCHIP caseload: \$4.1 million
 - Foster Care: \$3.7
 - Medicaid savings from Medicare Part D: \$2.3 million
 - Involuntary mental commitments: \$1.6 million



HB 30: Health & Human Resources

- \$690.9 million GF additional mandatory spending
 - Medicaid utilization and inflation: \$483.5 million
 - Impact of Medicare Part D: \$81.7 million
 - Comprehensive Services Act: \$48.4 million
 - Adoption Subsidy Program: \$29.0 million
 - MHMR facility and community pharmacy: \$15.0 million
 - TANF shortfall and VIEW day care: \$14.8 million
 - FAMIS and SCHIP (Medicaid low-income children): \$11.7 million
 - Mental health facility revenue shortfall: \$6.8 million



Health & Human Resources

- \$120.6 million GF for MHMR restructuring
 - Mental retardation restructuring: \$55.6 million
 - Mental health restructuring: \$51.5 million
 - Part C early intervention services: \$8.2 million
 - Eliminate MR waiver urgent care waiting list for children under age 6: \$5.3 million

- \$32.0 million GF for provider rate increases
 - Medicaid hospital rate increase: \$15.9 million
 - Medicaid nursing home payment changes: \$7.9 million
 - Medicaid physician rate increase: \$6.9 million (effective FY 2008)
 - Medicaid adult day health care rate increase: \$139,673 (effective January 1, 2007)
 - Rate increase for death investigations: \$1.3 million



HB 30: Health & Human Resources

- **\$34.2 million GF in program expansions**
 - Drinking water construction projects: \$10.0 million
 - Electronic medical records: \$7.1 million
 - Outsource payroll process for certain Medicaid services: \$3.9 million
 - Breast and cervical cancer screening and treatment: \$2.2 million
 - Increase personal maintenance allowance for Medicaid waiver services: \$2.1 million
 - Long-term employment support services: \$1.5 million
 - Resource mothers program: \$1.2 million
 - Healthy Families: \$1.0 million
 - Community Action Agencies: \$1.0 million
 - Other: \$4.2 million



HB 30: Health & Human Resources

- \$9.3 million GF in new programs
 - Early Childhood Foundation: \$8.6 million
 - Medicaid obesity pilot project in Southwest Virginia: \$0.4 million
 - Local health department grants for interpreter services: \$0.3 million

- \$9.5 million GF in other spending
 - DSS computer charges for eligibility determinations: \$6.9 million
 - Replace food service units in MHMR facilities: \$2.6 million

- \$24.3 million GF in savings
 - DMAS/DMHMRSAS – Facility savings from restructuring initiatives : \$21.6 million
 - DMAS – Outsource compliance audits: \$1.1 million
 - DMAS – Specialty drug program: \$1.4 million



HB 30: Medicaid Program Growth

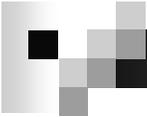
\$483.5 million GF

- Reflects growth in the FY 2006 Medicaid base
- Medicaid utilization and inflation totals:
 - \$164.6 million GF in FY 2007 (7.0% growth)
 - \$319.0 million GF in FY 2008 (8.0% growth)



Factors Driving Medicaid Growth

- Medical inflation
- Enrollment increases
 - Children, pregnant women and low-income adults
 - Persons with mental retardation & developmental disabilities (MR & DD waiver increases)
 - Aged and disabled individuals
- Higher utilization rates
- Increased costs per client
 - Complexity of care
 - Continued deinstitutionalization
- Higher payments to certain providers (reflects actions the 2004 & 2005 Sessions)
 - Hospitals
 - Nursing homes
 - Mental retardation & developmentally disabled waiver providers
 - Dentists
 - OB/GYNs, pediatricians, primary care & emergency room physicians
 - Personal care and adult day health care
 - Pharmacies
- Rebasing of hospital and nursing home rates



State Payment for Medicare Part D Drug Benefit “Clawback”

- State “clawback” payment
 - \$37.9 million in FY 2007
 - \$42.3 million in FY 2008

- States are required to pay the federal government the state share of the cost of Medicare Part D prescription drug coverage for individuals who are dually eligible for Medicaid and Medicare (referred to as “clawback”)
 - State share is 90% of costs for 2006 and decreases to 75% by 2015
 - Approximately 136,000 individuals “dual eligibles”

- “Clawback” amount based on:
 - Per capita costs for “dual eligibles” in 2003
 - Per capita growth in drug spending **nationwide** since 2003
 - Number of “dual eligibles” enrolled in Part D

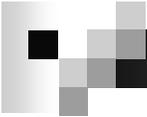
- “Clawback” amount does not recognize pharmacy program savings initiated since 2003:
 - Preferred drug list
 - Mandatory generic substitution
 - Maximum allowable cost pricing for generics
 - Threshold program
 - Expanded drug utilization review



Mental Health and Mental Retardation Restructuring

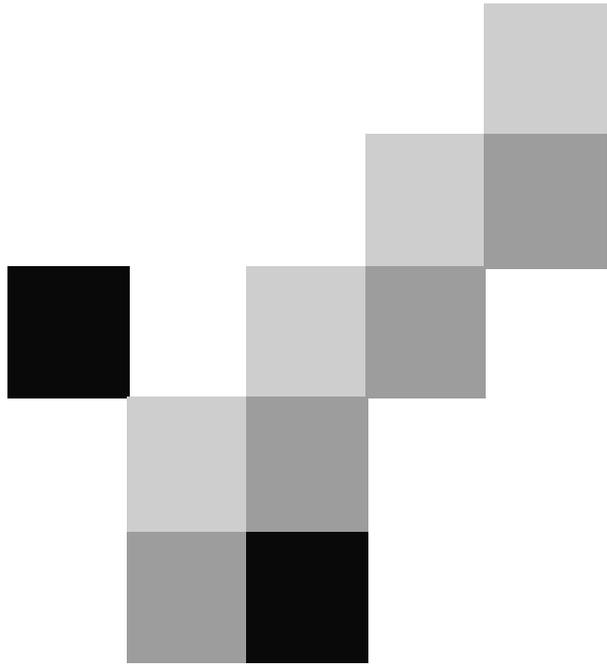
- Budget amendments address:
 - Development of community services capacity
 - Appropriately discharging patients and residents of state facilities into community care
 - Rebuilding 2 mental health hospitals and 2 mental retardation training centers to provide more efficient and state-of-the-art care

GF \$ in millions	FY 2007	FY 2008
Mental Retardation Svs.	\$24.9	\$30.7
Mental Health Services	\$24.7	\$26.8



Mental Health and Mental Retardation Restructuring

- **Mental Retardation - \$55.6 million GF and \$52.3 million NGF**
 - Additional 149 community Medicaid MR waiver slots (not including 110 new MR waiver slots to eliminate urgent care waiting list for children under age 6)
 - Central Virginia Training Center: 97 additional MR waiver slots for discharges
 - Southeast Virginia Training Center: 52 additional MR waiver slots for discharges
 - MR waiver slot start-up costs: \$4,000 per slot
 - Increase in Medicaid MR Waiver rates: 10% for congregate living, 5% for other waiver services
 - Guardianship services for mentally retarded
- **Other Mental Retardation Services - \$13.5 million GF and \$5.3 million NGF**
 - Additional 110 MR waiver slots to eliminate urgent care waiting list for children under age 6
 - \$8.2 million GF for Part C early intervention services for 1,429 infants and toddlers with developmental delays
- **Mental Health Services - \$51.5 million GF**
 - Eastern State Hospital community diversion funding to reduce capacity by 65 beds: \$11.7 million
 - Western State Hospital (WSH) and Northern Virginia Mental Health Institute community diversion funding (reduces capacity at WSH by 9 beds): \$12.0 million
 - Expand crisis stabilization services and add 2 new units: \$9.4 million
 - Regional funding for community mental health services and capacity building: \$7.4 million
 - Inpatient treatment, in-home residential support, mobile outreach, jail-based diversion projects, crisis counseling, discharge assistance planning, consumer-operated services
 - Start-up costs, housing development, utilization management
 - Discharge assistance for 22 NGRI patients and 32 civil patients: \$5.8 million
 - Expand children's services: \$2.0 million



Public Safety

HB 30: Department of Corrections New Facilities

- 2004 Session funded the construction of two new and two expanded adult correctional facilities based on
- \$93.2 million GF and 1,046 positions to operate the new facilities in 2006-08

<u>Facility</u>	<u>Beds</u>	<u>Operating Costs/ Positions</u>	<u>Opening Date</u>
Deerfield CC (Expansion)	600	\$20.7 million/194	January 2007
St. Brides CC (Expansion)	800	\$15.9 million/169	June 2007
Medium Security Institution: Tazewell County (New)	1,024	\$28.9 million/336	June 2007
Medium Security Institution: Pittsylvania County (New)	1,024	\$27.7 million/347	July 2007



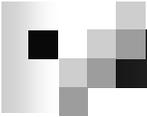
HB 30: Department of Corrections

- Direct inmate cost: \$15.8 million GF
 - Medical care cost increases
- Probation/parole officers: \$5.5 million GF
 - 53 positions to maintain average caseloads (76-80) per officer
- Private prison contract rate increase: \$3.8 million GF
- Correctional information system (CORIS) implementation: \$3.7 million GF
- Other adult corrections spending:
 - Assume Residential Substance Abuse and Treatment (RSAT) Grants: \$2.8 million GF
 - Sex offender supervision program: \$2.3 million GF
 - Town of Craigsville wastewater treatment plant upgrades (Augusta CC): \$1.3 million GF



HB 30: Sheriffs and Jails

- Deputies for new/expanded jails: \$4.9 million GF
 - Eastern Shore Regional and Northwestern Regional Jails
- Law enforcement deputies (1:1,500 Population): \$1.8 million GF
 - Counties of Fauquier, Frederick, Hanover, Loudoun, Montgomery, Spotsylvania, and Stafford
- Court services deputies: \$1.8 million GF
 - Phase-in Compensation Board staffing standards for court services function (court security and process service)
- Other proposals: \$2.1 million GF
 - Live scan enhancements: \$0.8 million GF
 - Sheriffs'/deputy sheriffs' career development program: \$0.7 million GF
 - Jail per diem payments: \$0.6 million GF



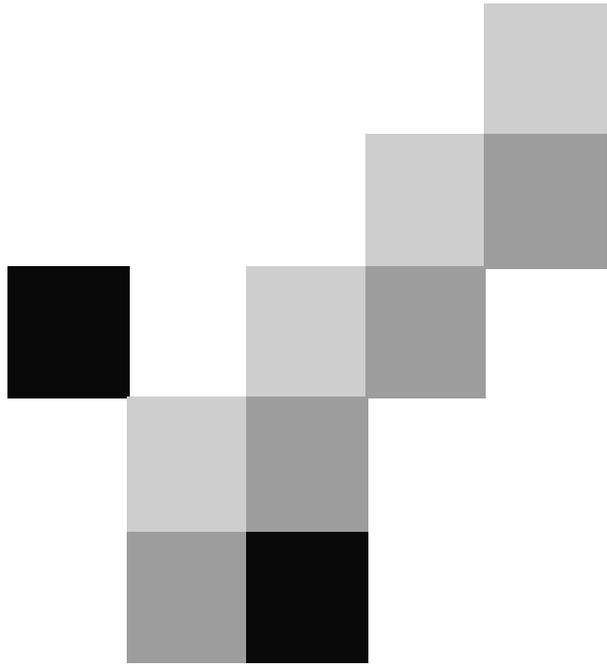
HB 30: Additional Public Safety Spending Proposals

- **State Police: \$16.7 million GF**
 - 70 trooper positions: \$9.8 million
 - Replace information systems: \$5.8 million
- **Dept. of Juvenile Justice: \$11.8 million GF**
 - Hanover/Culpeper JCC security staff: \$6.4 million
 - Offender reentry programs: \$3.6 million
- **Dept. of Correctional Education: \$10.2 million GF**
 - Establish programs at new/expanded prisons: \$4.8 million
 - Offender reentry: \$2.2 million
- **Base Realignment and Closure Assistance: \$30.0 million GF**
 - Grants to be matched by requesting localities
 - Priority for projects with regional impact



HB 30: Additional Public Safety Spending Proposals

- **Criminal Justice Services: \$42.3 million GF**
 - HB 599 program: \$33.7 million
 - Pre-and Post incarceration services: \$2.4 million
 - Local community corrections/pretrial programs: \$2.4 million
 - Law enforcement & community anti-gang programs: \$2.6 million
- **Department of Forensic Science: \$6.2 million GF**
 - Additional scientists/support staff: \$2.3 million
 - Reduced drug case backlog: \$1.4 million
- **Department of Fire Programs: \$12.0 million GF**
 - General fund match (\$2 for every \$3) of nongeneral fund revenue distributed from Fire Programs Fund
 - Fire Programs Fund is funded from a one percent assessment on fire-related insurance coverage
 - \$16.7 million is projected to be distributed from the Fund in FY 2006



Employee Compensation and Benefits



HB 30: Employee Compensation and Benefit Increases

- Employee salary increase: \$365.0 million GF
 - State employees (3%): 11/25/2006
 - Additional 0.5 percent for agency pay practices
 - Higher education faculty (3.65%): 11/25/2006
 - State-supported local employees (3%): 12/1/2006
 - Public school teachers (3%): 12/1/2006
- State employee health insurance program (employer premiums): \$71.3 million GF
 - Full state funding for enhanced prevention and wellness benefits
 - Employee premiums will increase 9.9 percent



HB 30: Virginia Retirement System (VRS) Pension Employer Rates

- Includes \$186.6 million GF for the State's share of various VRS pension programs
- VRS Board-certified employer contribution rates for the 2006-08 budget
 - 7.5 percent investment assumption
 - 21-year amortization period
 - 2.5 percent COLA assumption
- HB 30 funds VRS rates using revised actuarial assumptions
 - 8 percent investment assumption
 - 30-year amortization period
 - 3 percent COLA assumption

HB 30: Virginia Retirement System (VRS) Pension Employer Rates

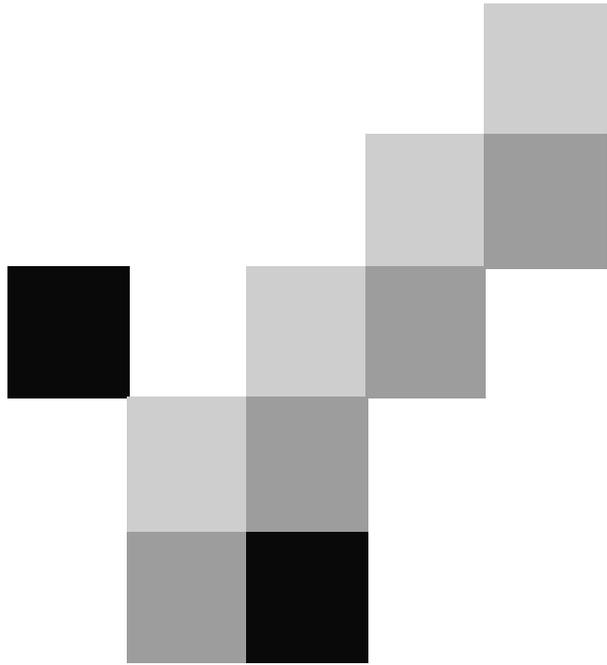
<u>Fund</u>	<u>Funded FY 2006 Rates</u>	<u>VRS Board 2006-08 Rates</u>	<u>HB 30 Funded 2006-08 VRS Rates</u>
State Employees	3.91%	7.33%	5.74%
Teachers	6.62%	11.18%	9.20%
SPORS	16.49%	19.82%	16.71%
JRS	30.55%	40.07%	36.47%
VaLORS	16.99%	17.39%	14.96%

Notes: Rates do not include employee 5% contribution.



HB 30: VRS Non-Pension Benefit Programs

- Virginia Sickness and Disability Program:
\$5.3 million GF
 - Reflects plan experience/increasing enrollment
- VRS Group Life Insurance Program
 - Discontinues premium holiday in effect since July 2002
 - \$17.1 million GF state employees
 - \$27.2 million GF teachers
- VRS Retiree Health Insurance Credit Program
 - \$7.0 million GF state employees
 - \$0.3 million GF teachers



General Government



HB 30: General Government

- Proposed spending items for the Judicial Branch Agencies and Executive Offices are typically addressing workload issues
- Exceptions include additional spending for drug courts and a proposed increase in compensation for court-appointed attorneys
 - Drug court spending includes offsetting reductions in nongeneral fund support for the 14 original drug courts as well as funding for support of two additional drug courts

	<u>\$ in millions</u>
Supreme Court: Drug court funding	5.7
Circuit Courts: Funding for projected increases in “Criminal Fund” caseload	18.6
Increasing court-appointed attorney compensation	3.8
Adding public defenders to reduce caseloads	2.3
Additional staffing for Attorney General	1.0
Total Proposed:	31.4



HB 30: General Government

- Proposed spending items for the Administration and Finance agencies provide additional support for constitutional officers and the expansion of existing programs
- Exceptions include new initiatives such as the promotion of Ethanol-blended fuels, the creation of unit in Taxation to increase oversight of the land preservation tax credit, and funding for new tax compliance initiatives

	<u>\$ in millions</u>
Compensation Board: Constitutional officer staffing	10.4
DVS: Additional veterans claims officers and cemetery staffing	1.1
DOA: Line of Duty Act payments	9.7
Tax: New compliance initiatives	1.4
Tax: Land Preservation Tax Credit oversight	0.7
Total Proposed:	23.3

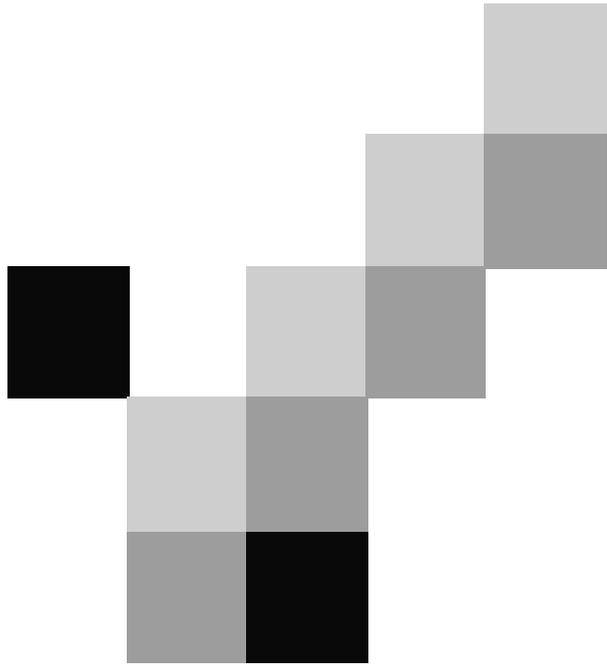


HB 30: General Government

- Proposed spending items for the Technology agencies consist primarily of nongeneral fund items, typically financed by the service fees charged by VITA
- New general fund initiatives include the Innovative Technology Authority's creation of a consulting line to link companies and technology firms and funding for a public-private partnership to upgrade Virginia's financial software

\$ in millions

Central Accounts: Financial software upgrades	27.1
ITA: New consulting line	1.0
Total Proposed:	28.1



Natural Resources



HB 30: Natural Resources

- Nearly all new spending related to water quality initiatives
- Exceptions include parks operating support, funding for the Rails to Trails program, and the creation of the Virginia Indian Heritage Program

	<u>\$ in millions</u>
DEQ: Chesapeake Bay POTWs	200.0
DEQ: Southern Rivers POTWs	25.0
DEQ: Combined sewer overflow projects	7.5
DEQ: Enhanced water quality monitoring	1.4
DEQ: Landfill oversight	0.9
DCR: Parks funding	3.2
DCR: Soil and Water Conservation Districts	1.0
DCR: Rails to Trails program	1.0
VMNH: New facility operations and staffing	0.9
Total Proposed:	240.9