

House Appropriations Committee

**Proposed Amendments to the 2006-08 Budget
House Bill 1650, as introduced
January 12, 2007**



Revised Revenue Outlook 2006-08 Biennium

- Revised general fund revenue forecast assumes growth rates of 6.5 percent in FY 2007 and 4.0 percent in FY 2008
 - Real economic growth rate for fiscal year 2007 is 5.4 percent when adjusted for the end of the Accelerated Sales Tax
- Most of the revenue revisions reflect continued strength in nonwithholding and corporate tax collections
 - FY 2008 forecast anticipates a slight decline in corporate tax collections
- Payroll withholding and sales tax are essentially unchanged from last year's official forecast
- Recordation tax collections assume a 20 percent decline in FY 2007, remaining flat through FY 2008
- Mid-Session forecast will occur in early February



HB 1650 General Fund Resources

- Total revenue and transfer adjustments: \$458.9 million
- Net revised general fund forecast results in an additional \$519.0 million for the biennium
 - Reflects two tax policy changes that reduce revenues by approximately \$15 million
 - Filing threshold change and conforming to federal tax law changes
- Lottery has revised their forecast downward based on North Carolina lottery
 - \$20.7 million in FY 2007 and \$20.7 million in FY 2008
- Other negative adjustments to transfers of \$18.7 million



Additional General Fund Resources

- Chapter 3 unappropriated balance of \$113.1 million
- June 30, 2006 agency reversion of \$110.7 million
 - Approximately half of this reversion is attributable to Department of Education balances resulting from the error in sales tax estimates for FY 2006
- Savings actions proposed in HB 1650 total approximately \$182.5 million
- Total resources available for appropriation of \$865.2 million



HB 1650 Budget Savings

- Major Budget savings include:
 - Public Education - \$95.0 million
 - Revised ADM forecast, participation in incentive and categorical accounts, and revised Lottery
 - Medicaid - \$15.7 million
 - Utilization and inflation updates
 - MR Waivers for training center residents
 - Transportation - Auto insurance premium tax reforecast - \$16.4 million
 - Revised forecast reflects FY 2006 actual collections
 - Debt service payments - \$11.2 million
 - Delayed bond issuances and refinancing

HB 1650 Selected Savings

GF \$ in Millions	FY 2007	FY 2008	Total
Public Education: Update Average Daily Membership	(\$20.4)	(\$35.8)	(\$56.2)
Public Education: Update Net Lottery Proceeds	(8.0)	(8.0)	(16.0)
Public Education: Update Incentive and Categorical Programs	(8.5)	(5.7)	(14.2)
Public Education: Update ESL/Summer School Participation	(2.0)	(3.1)	(5.1)
Public Education: Update Special Ed and VPSA	(1.8)	(1.7)	(3.5)
Transportation: Auto Insurance Premium Tax Reforecast	(8.6)	(7.8)	(16.4)
Treasury Board: Debt Service Reforecast	(10.0)	(1.2)	(11.2)
MR Waivers for Training Center Residents	(2.6)	(2.7)	(5.3)
FAMIS Utilization and Inflation	(2.5)	(2.5)	(5.0)
Social Services: Surplus Foster Care Funding	(3.2)	(3.2)	(6.4)
Social Services: Surplus Adoption Subsidy Funding	(2.0)	(2.0)	(4.0)
Compensation Board: Delayed Opening Fairfax Detention Ctr.	(1.6)	(1.7)	(3.3)
Community Colleges: Delayed Facility Openings	(0.9)	(1.2)	(2.1)
DMHMRSAS: SVP Facility Commitment Reforecast	(0.4)	(1.0)	(1.4)
DMAS: S-CHIP Utilization and Inflation	(0.6)	(0.5)	(1.1)
DMAS: Modify Specialty Drug Program	(1.0)	0.0	(1.0)
DMAS: Involuntary Mental Commitment Forecast	(0.7)	(0.3)	(1.0)



HB 1650 Spending

- Spending increases in HB 1650 total approximately \$860.2 million
- Three-quarters of the new spending are in seven areas:
 - Transportation - \$161.0 million: Supplements the \$339.0 million in unallocated general funds in VDOT's budget from 2006 Session
 - Capital Outlay - \$226.5 million: Project cost overruns, major system repairs, equipment for new facilities
 - Virginia Health Care Trust Fund shortfall - \$58.2 million: Due to lower MSA payments, lower than estimated tobacco taxes and unrealized assignment of escrow funds from nonparticipating manufacturers
 - Compensation issues - \$85.4 million: Second year teacher pay raise, state employee health insurance, enhanced retirement benefits, special salary adjustments
 - Higher Education - \$45.0 million: Base adequacy, financial aid, interest earnings
 - Natural Resources - \$38.0 million: Land Conservation Fund, CSO, WQIF
 - Loss of Federal Funding - \$22.8 million: Result of Federal Deficit Reduction Act and other federal policy changes

HB 1650 Selected Spending

GF \$ in Millions	FY 2007	FY 2008	Total
Transportation: Governor's 2007 Proposal	\$161.0	\$0.0	\$161.0
Capital Outlay: Project Cost Overruns & Supplements	0.0	132.8	132.8
Capital Outlay: Equipment - Previously Approved Projects	0.0	47.7	47.7
Capital Outlay: Project Planning	0.0	23.6	23.6
Capital Outlay: New Construction & Renovation	0.0	22.4	22.4
Virginia Health Care Fund Revenue Shortfall	25.1	33.1	58.2
Public Education: 1.5% Salary Increase for SOQ Positions	0.0	41.9	41.9
TANF: New Federal Requirements	1.1	24.9	26.0
Land Conservation	19.7	0.3	20.0
Higher Education: Base Adequacy / O & M for Facilities	0.0	18.6	18.6
Higher Education: Undergraduate Financial Aid	0.0	13.7	13.7
Higher Education: Earned Interest & Credit Card Rebates	0.0	12.7	12.7
Offset Loss of Federal Funds for Child Welfare Services	5.2	7.4	12.6

HB 1650 Selected Spending

GF \$ in Millions	FY 2007	FY 2008	Total
VEDP: Funds to Attract Research Entity to Virginia	\$0.0	\$ 12.0	\$ 12.0
Comprehensive Services Act	4.4	7.1	11.5
Compensation Board: LEOS Incentive Fund	0.0	11.5	11.5
State Employee Health Insurance	0.0	9.8	9.8
Combined Sewer Overflow Projects	3.1	6.0	9.1
Water Quality Improvement Fund: DCR & DEQ	9.1	0.0	9.1
Court Appointed Attorney Fees	0.0	9.0	9.0
Correctional Officer Salary Increase: DOC & DJJ	0.0	8.2	8.2
Compensation Board: Inmate Per Diem Payments	7.7	0.0	7.7
OPEB: Early Retiree Health Insurance	0.0	6.3	6.3
Emergency Management: All Hazards Readiness Initiative	0.0	6.1	6.1
Mental Retardation Waiver Slots for Community Residents	0.0	5.3	5.3
Medicaid Pediatric Services Rate Increase of 8%	0.0	5.2	5.2
Governor's Opportunity Fund	0.0	5.0	5.0

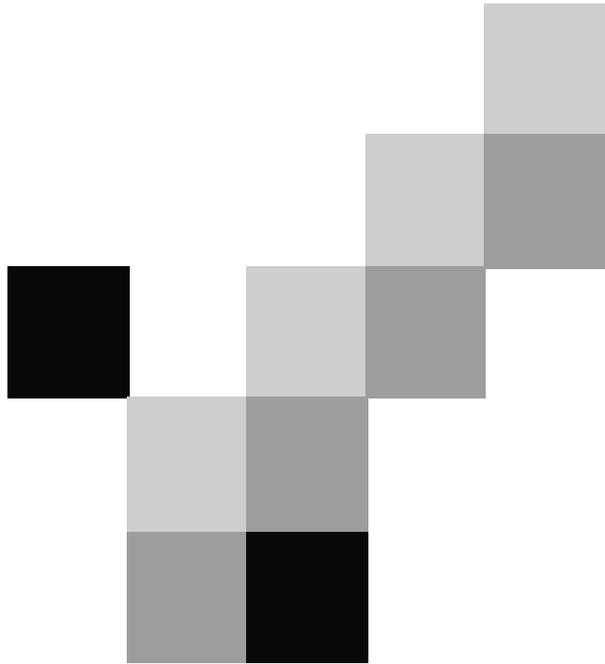
HB 1650 Selected Spending

GF \$ in Millions	FY 2007	FY 2008	Total
Offset Loss of Federal Funds for Child Support Enforcement	\$0.0	\$4.9	\$4.9
Public Education: 6 Pilots to Expand Preschool Availability	0.0	4.6	4.6
Public Education: OPEB Retiree Health Care & Group Life	0.0	4.3	4.3
Public Education: Expand Early Reading Intervention Prog.	0.0	4.1	4.1
Public Education: Expand SOL Algebra Readiness Program	0.0	3.9	3.9
Business Assistance: Workforce Services Program	2.0	2.0	4.0
DHCD: Enterprise Zone Grants	2.0	2.0	4.0
OPEB: Disability, Group Life, Retiree Health Credit	0.0	3.7	3.7
DOC Offender Management System	(1.7)	5.2	3.5
VITA: Backfill Unrealized Savings	3.3	0.0	3.3
State Police: Enhance State Police Retirement Benefits	0.0	2.3	2.3



Debt in Governor's Budgetary Proposals

- \$250 million in VPBA bonds for wastewater treatment facilities
- \$100 million in VPBA bonds for Mt. Rogers Correctional Facility
- \$36 million authorized in reimbursement for two new regional jails (Culpeper and Pr. William)
- \$25 million Treasury loan for DSS IT upgrades



Impact of Governor's Budget on Next Biennium

Adjusted Base Budget for FY 2008

Chapter 3 & 10

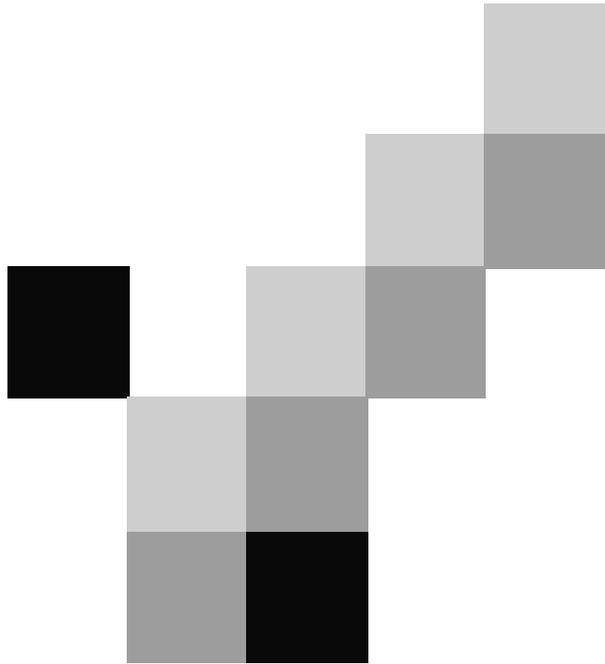
(GF Dollars in Millions)

2008 Total Appropriation	\$17,149.3
Remove Capital Outlays (Except for Maintenance Reserve)	(\$154.5)
Annualize Partially Funded Costs (FY 2008 Salary Increases Including Teacher Pay Raises)	\$87.2
Remove One-Time Spending (FY 2008 Rainy Day Fund)	(\$138.3)
Expected FY 2009 Rainy Day Fund	\$82.5
HAC Estimated Base Budget	\$17,026.2
FY 2008 Resources Based on Chapter 3	\$17,028.6
Annualize Full Repeal of Estate Tax	(\$105.0)
Adjusted Revenue Base	\$16,923.6
Revised Balance	(\$102.6)

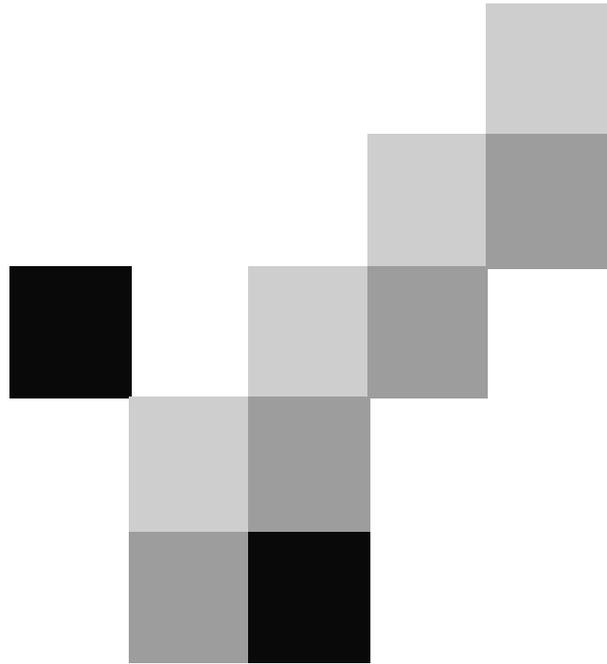
Adjusted Base Budget for FY 2008 HB 1650 as Introduced

(GF Dollars in Millions)

2008 Total Appropriation	\$17,584.2
Remove Capital Outlays (Except for Maintenance Reserve)	(\$263.6)
Annualize Partially Funded Costs (FY 2008 Salary Increases)	\$108.2
Other Annualized	\$19.7
Remove One-Time Spending (FY 2008 Rainy Day Fund)	(\$184.3)
Other One-Time Spending	(\$31.3)
Maximum FY 2009 Rainy Day Fund Deposit	\$92.6
HAC Estimated Base Budget	\$17,325.5
FY 2008 Resources Based on Chapter 3	\$17,319.7
Annualize Full Repeal of Estate Tax	(\$105.0)
Annualize Other Revenue Issues	(\$29.8)
Excess Rainy Day Fund Deposited into General Fund	(\$120.4)
Adjusted Revenue Base	\$17,064.5
Revised Balance	(\$261.0)



Details by Secretarial Area



Transportation



Transportation Funding

- HB 1650 proposes an additional \$161.0 million GF for transportation projects
- When added to the \$339.0 million appropriated but not allocated by the 2006 General Assembly, \$500.0 million GF is dedicated to transportation projects as detailed below:
 - \$305.0 million GF deposited into the Transportation Partnership Opportunity Fund (TPOF) for specific PPTA and design-build projects as follows:
 - Capital Beltway HOT Lanes
 - Hillsville Bypass
 - I-64/264 Interchange
 - Route 50 widening in Loudoun and Fairfax counties
 - Language does not specify what amounts would be allocated to which project



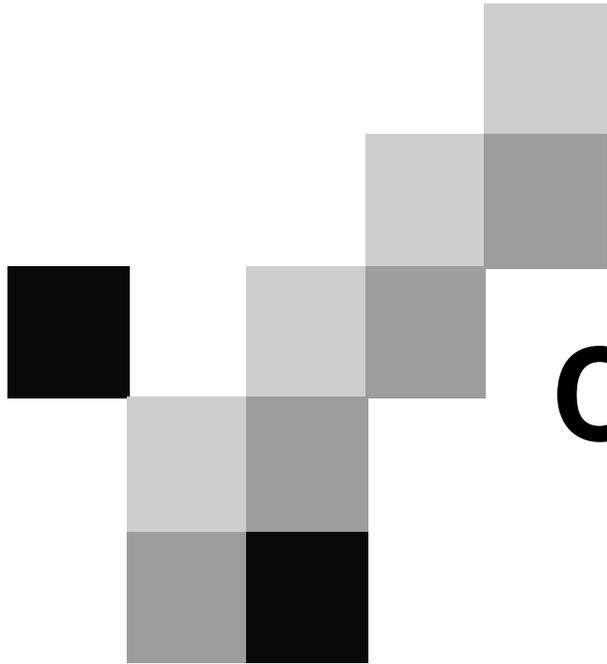
Proposed Uses of General Fund Dollars for Transportation

- \$65.0 million for the Rail Enhancement Fund to be used to:
 - Complete funding for ongoing rail improvements in the Richmond-DC corridor
 - Begin Phase 1 of I-81 rail corridor improvements
- \$60.0 million in transit capital funding
 - \$20.0 million for Metro
 - \$15.0 million for VRE
 - \$10.0 million for Norfolk Light Rail project
 - \$15.0 million for statewide distribution
- \$50.0 million for Port-related improvements in Hampton Roads
 - Up to \$40.0 million for the Route 164 rail relocation
 - Remainder for design/engineering for Craney Island expansion
- \$20.0 million for private sector initiatives to utilize technology to reduce congestion in Northern Virginia and Hampton Roads

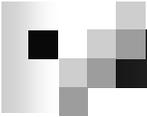
Governor's 2007 Transportation Revenue Proposal

(\$ in millions)

Proposed Sources	Proposed Increase	FY08	FY09	FY10	FY11	FY12	FY 13
One-time General Fund		\$ 500.0	50% of nonrecurring GF surplus				
Dedicate Auto Insurance Premiums	existing GF revenue	109.8	115.4	120.8	127.9	135.8	144.2
Subtotal: Existing Revenues		609.8	115.4	120.8	127.9	135.8	144.2
Increase Motor Vehicle Sales & Use Tax	2%	360.7	405.5	417.6	424.3	432.3	433.0
Increase Motor Vehicle Registration Fees	\$15/\$20	107.6	109.7	148.8	148.8	148.8	148.8
Collect Fees from Abusive Drivers	8+ demerits	57.5	80.5	108.1	108.1	108.1	108.1
Increase Heavy Truck Registration Fees	varies by weight	24.6	24.6	24.6	24.6	24.6	24.6
Subtotal: New and Increased Revenues		550.4	620.3	699.2	705.8	713.8	714.5
Grand Total:		\$ 1,160.1	\$ 735.7	\$ 820.0	\$ 833.7	\$ 849.6	\$ 858.7
Proposed Uses		FY08	FY09	FY10	FY11	FY12	FY 13
Address Highway Maintenance Deficit		\$ 370.0	\$ 417.6	\$ 490.3	\$ 493.7	\$ 497.7	\$ 498.0
Address FRAN Debt Service		109.8	115.4	120.8	127.9	135.8	144.2
Finance One-Time Project Costs		500.0	50% of nonrecurring GF surplus				
Finance On-Going Partnerships							
95% Share of Transit Capital		95.0	104.5	115.0	119.5	124.3	129.3
2006 Expanded Revenue Sharing Program		35.0	35.0	35.0	35.0	35.0	35.0
Rail Enhancement Program		23.5	24.2	24.8	25.5	26.2	26.9
Transportation Partnership Opportunity Fund		26.8	39.1	34.1	32.1	30.6	25.3
Total Proposed Uses		\$ 1,160.1	\$ 735.7	\$ 820.0	\$ 833.7	\$ 849.6	\$ 858.7



Commerce and Trade



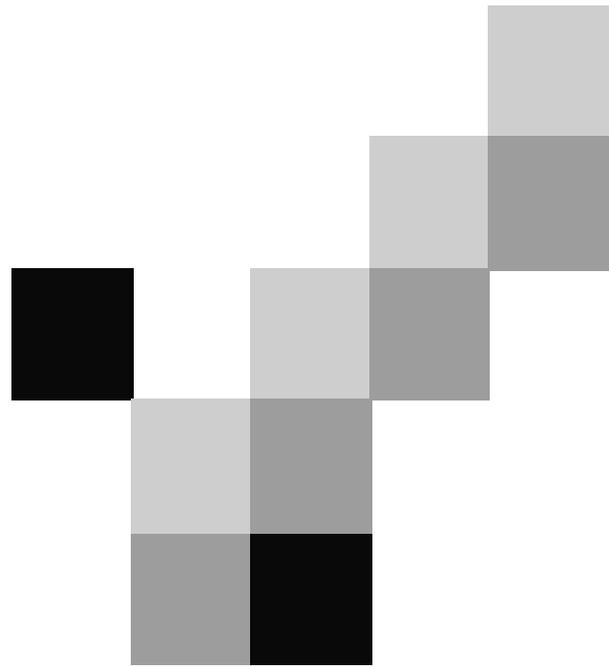
Commerce & Trade

- Proposed amendments within the secretariat total \$15.3 million GF
- An additional \$18.0 million GF is proposed within Central Appropriations for economic development projects
- About 70 percent is proposed for the Department of Housing and Community Development as follows:
 - \$2.0 million each year to supplement the existing appropriation for Enterprise Zone grants
 - Eligible recipients currently receiving pro-rated grants
 - \$2.5 million over the biennium for indoor plumbing programs
 - \$2.0 million to recapitalize the Housing Partnership Revolving Loan Fund
 - \$1.6 million in FY 2007 for the Eastern Shore broadband project
 - \$330,000 in FY 2008 to expand the regional research initiative to Covington



Commerce & Trade

- Department of Business Assistance - \$2.0 million GF each year to expand the Workforce Services Job Investment program
 - Currently funded at \$8.5 million each year
- Virginia Economic Development Partnership
 - \$1.0 million GF in the first year to the Herbert H. Bateman Advanced Shipbuilding and Carrier Integration Center
 - \$200,000 GF in the second year to undertake an assessment to identify emerging growth markets
- Central Appropriations items
 - \$12.0 million GF in the second year as an economic development incentive for SRI to locate its East Coast operations in the Harrisonburg area
 - No stand alone legislation being introduced to support this proposal
 - \$5.0 million GF increase in Governor's Opportunity Fund for FY 2007
 - Would bring total to \$20.1 million
 - Additional \$2.5 million GF in the second year for economic contingency increasing the funding from \$1.2 million to \$3.7 million
 - \$1.0 million GF the first year to establish a Technology Development Center in Russell County

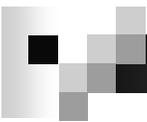


Public Education Elementary and Secondary



Public Education

- HB 1650, as introduced, addresses four main issues for the K-12 budget:
 - Pre-Kindergarten Initiatives
 - Current Program
 - New Pilot Program
 - Teacher Compensation Adjustments
 - Program Expansions
 - Technical updates to the SOQ, Incentive and Categorical accounts
 - Primarily impacted by ADM and Lottery adjustments



Pre-Kindergarten Initiatives

- Changes to current Virginia Pre-School Initiative program include:
 - Lower school division participation savings: (\$4.9) million in first year
 - Governor proposes to redirect \$2.0 million of savings from lower participation in the first year to create a reserve for one-time start-up costs or expansion of existing programs
 - Department of Education will provide grants to qualifying school and community-based groups
- New Start Strong Initiative adds two positions in DOE's Central Office to administer this pilot program: \$200,000 GF in FY 2008



Pre-Kindergarten Initiatives

- New pilot program for Governor's universal pre-kindergarten in FY 2008: \$4.6 million GF
 - 6 locations to be selected from either public or private providers
 - Each location/community will receive \$120,000 for start-up or expansion costs
 - Providers must participate in the Quality Ratings System Pilot
 - Local match may be waived by Secretary of Education
 - Funding amount is based on state's share of \$5,700 per pupil allocated – same methodology used in the Virginia Pre-School Initiative (VPI) program
 - Will serve up to 1,250 four-year-olds
 - Cannot be limited to at-risk or low-income eligible children



Teacher Compensation

- The 2006 General Assembly provided \$22.0 million GF for a 1.5 percent salary increase for teachers effective December 1, 2007
- Governor's introduced budget includes an additional 1.5 percent of the state's share for a salary increase for all SOQ positions effective December 1, 2007: \$41.9 million GF
- Incentive-based funds – optional participation
 - Localities determine salary increase
 - School divisions provide matching local share of at least same salary adjustment

Program Expansions

- Early Reading Intervention Program:
 - Decrease in remediation services for current program due to fewer students with failing scores on Phonological Awareness Literacy Screening (PALS) test: (\$1.7) million GF each year
 - Remediation costs are based on providing 2.5 additional teaching hours per week for 36 weeks for each student identified
 - Expand funding from 50 percent to 100 percent for 1st and 2nd graders: \$4.1 million GF in FY 2008
- Expand SOL Algebra Readiness program to add 6th graders: \$3.9 million GF in FY 2008

Grade Level	Current	Proposed
K	100%	100%
1 st	50%	100%
2 nd	50%	100%
3 rd	25%	25%



Technical Updates to SOQ

- Decrease in projected student ADM growth: (\$56.2) million GF
 - FY 2007 (\$20.4) million: 5,742 fewer students
 - FY 2008 (\$35.8) million: 8,448 fewer students
- As a result of revised Lottery estimate, payments to school divisions will decline by (\$8.0) million GF each year
 - Total Lottery revenues are generally split 60/40 between funding a portion of SOQ payments and a direct payment to school divisions based on a per pupil amount
 - Total revised Lottery revenue estimates decreased by (\$20.7) million each year
 - The portion of Lottery revenues not realized for the SOQ payment must be backfilled by general fund revenue: \$12.0 million each year



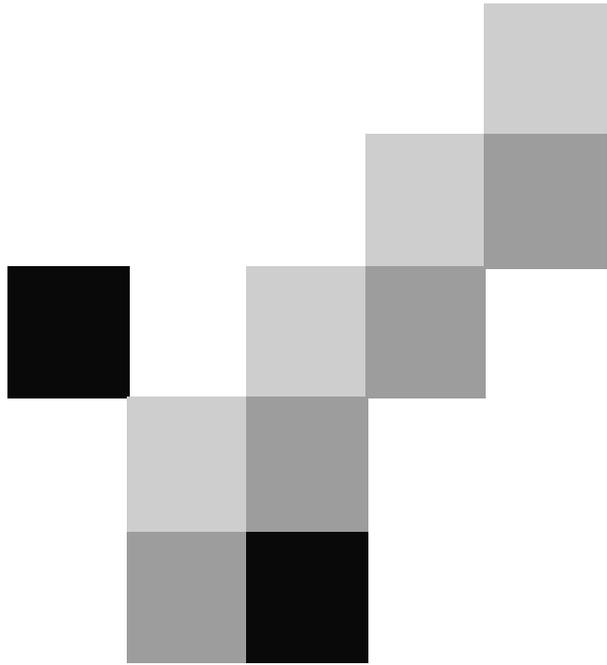
Technical Updates to SOQ, Incentive & Categorical Accounts

- Update net Sales Tax estimates: \$2.7 million GF in FY 2008
- Update for lower student enrollments in Regional Special Education schools: (\$3.4) million GF each year
- Update costs for fewer students requiring Special Education Homebound services: (\$1.6) million GF each year



Technical Updates to SOQ, Incentive & Categorical Accounts

- Update costs for lower student enrollments in English-as-a-Second-Language and Remedial Summer School programs: (\$5.1) million GF
- Adjustment to student enrollments in Governor's Schools and Summer School program costs: (\$1.1) million GF
- Increase for school breakfast participation: \$641,073 GF



Higher Education



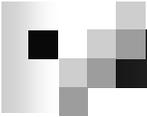
Higher Education Institutions

- \$18.6 million GF to address institution base operations and enrollment
 - \$15.3 million for base adequacy
 - Funding is allocated to 10 of the 17 public institutions where the current percent of guideline is less than 100 percent based on DPB calculations
 - \$3.3 million for O & M for new facilities



Student Aid

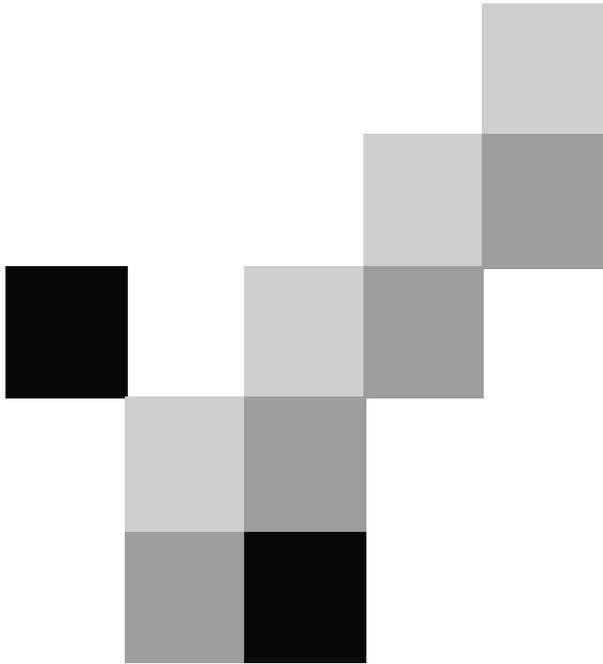
- Additional \$13.7 million GF for undergraduate student financial aid in FY 2008
- \$1.0 million GF to reimburse colleges and universities for the cost of providing room and board to students who qualify under the Virginia Military Survivors and Dependents program and who reside in on-campus housing



Funding for New Initiatives and Program Expansions

	<u>GF \$ in millions</u>
Additional Research for CTRF and Stem Cell	\$ 2.5
Additional 10 percent salary increase for nursing faculty	1.7
Additional degree programs at higher education centers	1.5
New VMI Scholarship	0.5
Expand logistics training at VSU	0.4
EVMS Masters in Public Health	0.3
VIMS Clean Marina and Blue Crab Monitoring	0.3
New IT training at UVA-W	0.2
VCU Harris Institute	<u>0.1</u>
Total for New Initiatives and Program Expansions	\$ 7.5

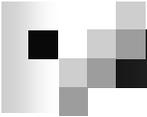
Capital Outlay





General Fund Capital Projects

	<u>GF \$ in millions</u>
Cost Overruns on Previously Approved Projects	\$117.8
Cabin Construction at State Parks	15.0
New Construction Projects	6.4
New Renovation Projects	16.0
Equipment for Previously Approved Projects Scheduled to Open 2006-08	47.7
Supplement Project Planning Approved in 2006 Session	12.4
Planning Funds for New Projects	<u>11.2</u>
Total General Fund	\$226.5



Nongeneral Fund Supported Capital Projects

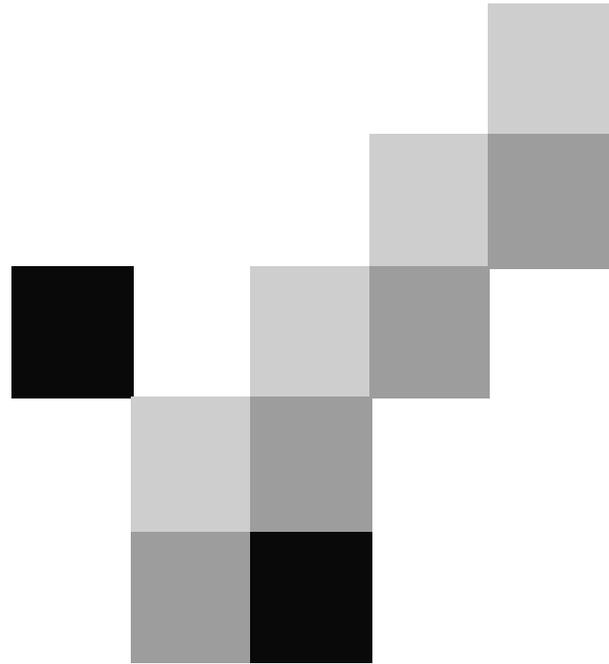
- Projects funded through nongeneral funds such as gifts, federal funds, auxiliary enterprise revenues, and port revenues

	<u>NGF \$ in millions</u>
9(c) Revenue Bonds	\$98.9
9(d) Nongeneral Fund Revenue Bonds	113.2
Nongeneral Funds	<u>69.6</u>
Total Nongeneral Funds	\$281.7



Other Capital

- Planning funds were provided in the 2006 Session for several key legislative capital project priorities: Western State Hospital, Central Va. Training Center, Southeastern Va. Training Center, Mt. Rogers correctional facility, and to consolidate the schools for the deaf and blind
- Separate legislation would authorize construction of Mt. Rogers Correctional Facility with about \$100.0 million in bonds from the VPBA (HB 1712)
- Supplemental planning funds are provided for the school consolidation
- No funds are provided for any of the mental health institution replacements

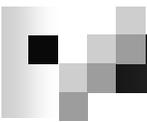


Health & Human Resources



Health & Human Resources

- HB 1650 includes \$149.3 million GF in new spending for Health & Human Resources
- Spending is offset by \$29.7 million GF in savings
- Most new funding reflects ongoing spending commitments



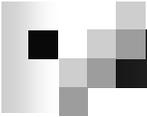
Major Spending Items Proposed for Mandated Programs

- Virginia Health Care Fund revenue shortfall: \$58.2 million
- New federal Temporary Assistance to Needy Families (TANF) requirements: \$26.0 million
- Impact of federal law and policy changes on children's services, child support enforcement, MHMR licensing and human rights, and aging programs: \$22.9 million
- Comprehensive Services Act (CSA): \$11.5 million



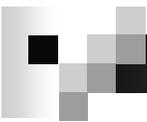
Virginia Health Care Trust Fund Revenue Shortfall

- Decline in Medicaid revenue from the Virginia Health Care Trust Fund requires an additional:
 - \$25.1 million GF in FY 2007
 - \$33.1 million GF in FY 2008
- Revenue shortfall is due to:
 - \$33.0 million less from non-participating manufacturers of tobacco products
 - None have chosen to assign their tobacco escrow funds to the Commonwealth per HB 2919 (2005 Session)
 - Medicaid provider rate increases were adopted during the 2005 Session predicated on receipt of escrow funds (annualized cost of the rate increases was \$9.4 million)
 - \$16.4 million less from lower than estimated tobacco tax proceeds
 - \$14.0 million less from Tobacco Master Settlement Agreement (MSA)
 - MSA shortfall is partially offset by a new 10-year revenue stream beginning April 2008 not previously recognized in the budget (Strategic Contribution Payment)
 - Shortfall partially offset by Medicaid recoveries



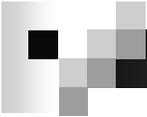
Temporary Assistance to Needy Families (TANF) New Federal Requirements

- \$26.0 million for TANF reauthorization costs
 - Additional child care costs for individuals required to work
 - Transitional payments to working recipients (up to 1 year)
 - Additional costs to engage more individuals in work
 - 1% decline in federal TANF grant
- Of this amount, \$18.9 million GF is used to backfill community self-sufficiency and prevention programs, and local staffing previously funded with excess federal TANF
 - \$13.7 million funded through the Dept. of Social Services
 - Local DSS foster care and adoption staff, Community Action Agencies, Healthy Families, domestic violence services, Centers for Employment and Training, employment services for hard-to-serve TANF recipients
 - \$4.2 million funded through the Dept. of Health
 - Comprehensive Health Investment Project (CHIP) of Virginia, teen pregnancy prevention programs, Partners in Prevention, Resource Mothers
 - \$1.0 million funded through CSA
 - Community prevention programs



Impact of Federal Deficit Reduction Act & Federal Policy Changes

- **Child welfare services: \$12.9 million**
 - Federal Title IV-E foster care reimbursement changes will result in loss of funds for local DSS social worker staffing, and training of local staff and foster parents
 - Federal Title IV-E program will no longer reimburse for licensing and human rights activities related to MHMR child and adolescent programs
- **Child support enforcement: \$4.9 million**
 - Federal DRA reimbursement changes no longer allow the state to use earned federal incentive funds as the state match for federal child support enforcement funds
- **CSA therapeutic foster care services: \$4.8 million**
 - Federal DRA eliminated use of federal Medicaid matching funds for most therapeutic foster care services provided to children and adolescents in the CSA program



HHR Initiatives

- **\$11.5 million for rate increases**
 - 8% rate increase for Medicaid pediatric services (total increase for FY 2008 will equal 15%): \$5.2 million
 - Medicaid rate increase for inpatient psychiatric hospital services: \$3.3 million
 - 10% foster care and adoption subsidy rate increase: \$3.0 million

- **\$7.0 million for service expansions**
 - FAMIS eligibility for pregnant women from 166% to 200% of the federal poverty level: \$2.6 million
 - Human Papillomavirus (HPV) vaccinations for girls entering 6th grade: \$1.4 million
 - Home-delivered meals for elderly: \$0.7 million
 - Vocational rehabilitation services waiting list: \$0.6 million
 - Medicaid high-risk maternity program: \$0.5 million
 - Additional DBVI rehabilitation teachers for blind and vision impaired: \$0.3 million
 - Physician loan repayment program: \$0.3 million
 - Grants for medication assistance coordinators: \$0.3 million
 - Additional Program for the All-inclusive Care of Elderly (PACE) site in NoVa: \$0.3 million

- **\$4.6 million for new initiatives**
 - Voluntary quality ratings system pilot for preschool day care programs: \$2.9 million
 - Medicaid “Money Follows the Person” demonstration project: \$0.9 million
 - Child psychiatry and child psychology internships at state teaching hospitals: \$0.5 million
 - Nursing scholarship and loan repayment program: \$0.2 million
 - Staffing to encourage the development of small business health insurance risk pools: \$0.1 million



HHR Technology Initiatives

- **DSS Treasury Loan for Software Program Conversion**
 - Language authorizes a Treasury loan of up to \$25 million over 4 years with repayment over 3-5 years from savings in annual operational expenditures
 - Project would convert Unisys MAPPER software programming language to industry standard web-based programming environment
 - Largest system using MAPPER programming environment is the ADAPT eligibility and benefit determination system
- **\$4.7 million NGF in FY 2008 for DMHMRSAS electronic medical records and pharmacy management system**
 - Total project cost estimated at \$15.0 million
 - Recommended for funding by IT Board
- **\$0.9 million GF in FY 2008 for DSS child day care subsidy payment system**
 - Total project cost estimated at \$4.5 million
- **\$0.8 million GF in FY 2008 for VDH expansion of electronic health information records initiative**
 - One-time grant awards to public and private providers and funding to develop and implement electronic medical records in local health departments
- **\$0.5 million GF in FY 2008 for Dept. for the Aging web portal for exchanging client information (“No Wrong Door”)**
 - Ongoing annual cost is about \$600,000 to \$700,000
 - Project not identified in the last agency IT Strategic Plan
 - Began as a federal grant to create a single, coordinated system of information and access to services for persons seeking long-term care support
 - HJR 657 (2005 General Assembly) requested Secretary of Health and Human Resources to study a “no wrong door” approach to access long-term care services in Virginia
 - Federal grant supports three pilot programs
 - No ongoing support for program from federal government



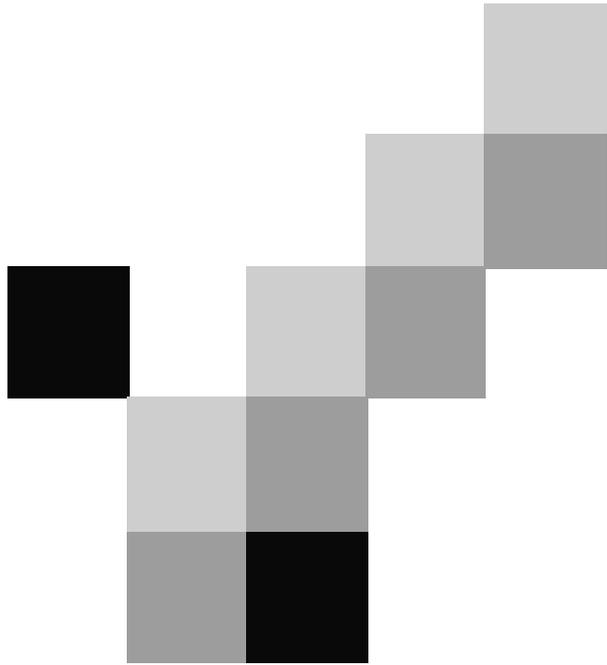
MHMR Restructuring

- 2006 General Assembly provided \$127.2 million GF over the 2006-08 biennium for new investments in community mental health, mental retardation and substance abuse services
 - Included 473 additional mental retardation waiver slots as follows:
 - 214 for individuals on community waiting lists
 - 149 to discharge individuals from state facilities into communities
 - 110 to eliminate the community waiting list for children under age 6
- Governor proposes:
 - Reducing \$5.3 million GF for mental retardation waiver slots for the discharge of individuals in state facilities
 - Discharges are not occurring as originally estimated
 - Redirecting the \$5.3 million to add 170 MR waiver slots for individuals living in the community
- Planning for the rebuild of SEVTC and CVTC has not been completed
- No proposals to rebuild Western State Hospital are included in HB 1650



HHR Savings

- \$16.7 million GF in DMAS due to lower estimates of utilization and inflation and MR training center discharges to MR Waiver slots:
 - Medicaid & Children's Health Insurance: \$15.7 million
 - Involuntary mental commitments: \$1.0
- \$10.4 million GF in DSS from surpluses in the foster care and adoption subsidy programs
- \$1.4 million GF revised forecast of sexually violent predator commitments to DMHMRSAS



Natural Resources



Land Conservation

- **\$13.7 million for Virginia Land Conservation Fund**
 - 25 percent must be transferred to the Open-Space Lands Preservation Trust Fund for use in securing easements
 - 75 percent must be allocated equally between natural area protection, open spaces and parks, farmland and forest preservation, and historic area preservation
 - At least one-third of this amount must be used for securing easements
- **\$5.0 million for the VDACS Office of Farmland Preservation**
 - Funding will be used to match local government funding for purchase of development rights (PDR) programs in the following: Albemarle, Augusta, Clarke, Chesapeake, Fauquier, Isle of Wight, James City, Spotsylvania, and Virginia Beach



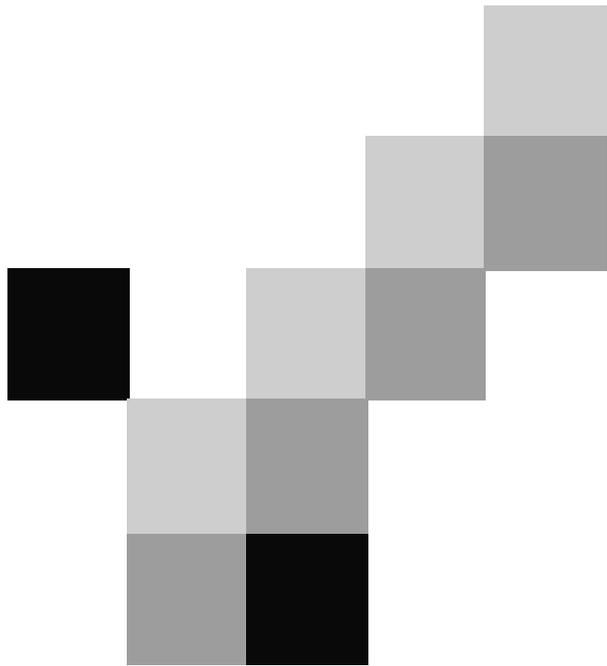
Water Quality Programs

- Combined Sewer Overflow Projects: \$9.1 million
 - \$6.1 million provided for Lynchburg and \$3.0 million for Richmond
 - In addition, \$650,000 in interest is to be administratively appropriated from Combined Sewer Overflow Fund to provide Lynchburg with same amount as Richmond received in FY 2007
- Water Quality Improvement Fund: \$9.1 million
 - \$7.5 million to control nonpoint source pollution
 - \$1.6 million for point source pollution
 - \$5.4 million of the total WQIF deposits represents the remaining deposit due to FY 2006 year-end revenue surplus

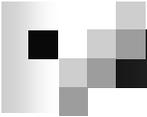


Chesapeake Bay Bond Proposal

- Authorizes the issuance of \$250 million in VPBA bonds
 - Bonds to be issued after July 1, 2008
 - No debt service included in Governor's introduced budget
 - Amount represents remaining share of House commitment to provide \$500 million in grants for wastewater treatment plant improvements over 10 years
 - During the past two Sessions, the General Assembly has appropriated \$276.7 million for improvements to wastewater treatment plants
 - That amount has grown to \$300 million with interest
- Funding would provide Water Quality Improvement grants to 89 publicly-owned wastewater treatment plants

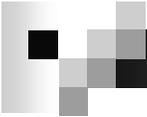


Public Safety



All Hazards Initiative

- Proposal includes five secretariats and a total of \$7.6 million GF in FY 2008
 - Majority of funding provided to Departments of Emergency Management (DEM) and Military Affairs (DMA)
 - \$3.5 million evacuation facility grant program is largest single funding component
 - \$1.3 million provided for citizen alerts and continuation of state government services
 - \$1.0 million provided for flood evacuation simulation, traffic monitoring, and a public preparedness campaign
 - \$525,425 provided for 11 new homeland security or emergency response positions
 - \$360,617 included to convert nongeneral positions into general fund positions
 - Remainder used to purchase new supplies for Virginia Defense Force, upgrade mobile command center, and provide reservist training



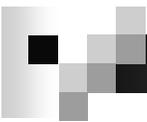
Offender Re-Entry Initiative

- Provides \$4.3 million GF in FY 2008 to five agencies
 - \$800,000 proposed for Dept. of Criminal Justice Services to support piloting five “local re-entry councils”
 - Serves Greensville, Culpeper, King George, Spotsylvania, Stafford, and Caroline counties and the cities of Richmond, Norfolk, and Fredericksburg
 - \$834,673 provided to Dept. of Juvenile Justice for transitional housing and training programs to assist juvenile offenders in returning to society
 - Beaumont Juvenile Correctional Center cottages to be used for housing
 - \$510,179 for DOC and Correctional Education to provide seven transition specialists to work with offenders and re-entry councils to address issues preventing offenders from successfully returning to society
 - \$1.8 million to backfill federal or other grants which have expired
 - \$967,000 to backfill federal grants for various activities
 - \$579,900 to backfill federal VASAVOR grant for services to violent felons returning to Fairfax County and Newport News
 - \$300,000 to backfill private grants for day reporting centers



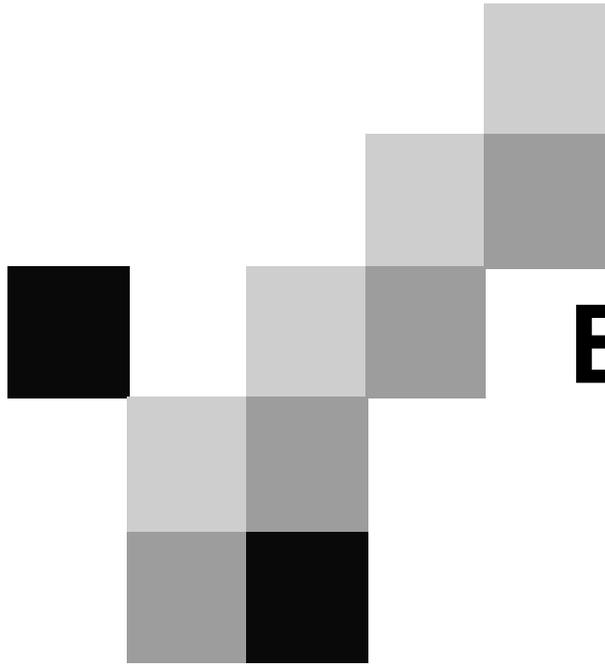
Sheriffs and Jails

- Local Jail Per Diems: \$7.7 million GF
- 1:1,500 Law Enforcement Ratio: \$743,059 GF
 - Provides for 24 new deputies
 - Affected localities include: Augusta, Bedford, Culpeper, Dinwiddie, Fauquier, Fluvanna, Frederick, Hanover, Isle of Wight, King George, Loudoun, Montgomery, New Kent, Orange, Rockingham, Spotsylvania, Stafford, and York counties
- Staffing for new jails or jail expansions: \$655,616 GF



Distribution of HB 599 Funds

- HB 1650 proposes to change the distribution of HB 599 funds
 - \$206.3 million (FY 2007 base funding) is distributed according to the existing formula based primarily on population
 - Governor proposes that 60 percent of any increases in funding be distributed according to the existing formula and that 40 percent be distributed to the 20 cities with the highest crime rates
 - Large urban counties would receive less than they otherwise would under the existing formula
- In total, the additional amount to be distributed in FY 2008 is \$8.3 million more than the FY 2007 base
 - \$5.0 million would be distributed based on the existing formula
 - \$3.3 million would be distributed to the 20 localities with the highest crime rates
 - No counties or towns fit this criteria
 - Affected cities: Bedford, Bristol, Charlottesville, Chesapeake, Danville, Emporia, Franklin, Fredericksburg, Galax, Hopewell, Newport News, Norfolk, Norton, Petersburg, Portsmouth, Richmond, Roanoke, South Boston, Suffolk, and Waynesboro



Employee Compensation and Benefits



Other Post Employment Benefits (OPEB)

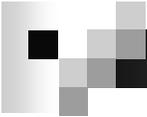
- The Governmental Accounting Standards Board has recently issued two new accounting standards with requirements for OPEBs
 - New standards require the cost of promised benefits to be recognized for financial reporting purposes during employment rather than after employment when the benefit is paid
 - Benefits must be funded on an accrual basis or included on the Commonwealth's financial statement as a liability

- Virginia currently has five OPEBs which are subject to these requirements
 - Pre-Medicare Retiree Benefits
 - Line of Duty
 - Health Insurance Credit
 - Retiree Group Life Insurance
 - Long Term Disability



OPEB Early Retiree Health Insurance

- In FY 2008, budget provides the first of a five-year phased-in funding for retiree health insurance
 - Estimated general fund cost of fully funding the program on an actuarial basis is \$30.2 million GF
 - HB 1650 provides in FY 2008
 - \$6.3 million GF
 - \$5.1 million NGF
 - \$1.9 million from employees
 - \$1.1 million from pre-Medicare retirees



OPEB VRS Benefits for State Employees and Teachers

- State Employees: The budget also begins to phase-in the transition in funding the OPEB benefits administered by the VRS
 - Estimated cost of fully funding the program on an actuarial basis is \$21.8 million GF
 - Based on valuations as of June 30, 2006
 - Net funding in proposed budget is \$3.7 million GF in FY 2008
 - VSDP: \$4.4 million GF
 - Life Insurance: (\$3.0) million GF
 - Health Credit: \$2.3 million GF
- Teachers: Budget increases funding for changes to fringe benefit rates in second year
 - \$4.3 million GF in FY 2008
 - Increase needed to fund the OPEB programs on an actuarial basis
 - Group Life from 0.45% to 0.40%
 - Retiree Health Care Cost from 0.49% to 0.70%



Projected State Employee Health Care Premiums

- State Employee Health Insurance Program: \$9.8 million GF in FY 2008
 - Funds a 4.5 percent increase in premiums for the current program
 - Cost increases due to a 2.5 percent premium increase, an expanded wellness benefit and OPEB accounting changes

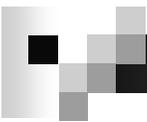
COVA Care Basic

	FY 2007 Monthly Premium			FY 2008 Monthly Premium		
	Total	Employer	Employee	Total	Employer	Employee
Single	\$418	\$378	\$40	\$437	\$395	\$42
Dual	\$774	\$675	\$99	\$809	\$706	\$103
Family	\$1,131	\$991	\$140	\$1,182	\$1,035	\$147



Targeted Salary Increases

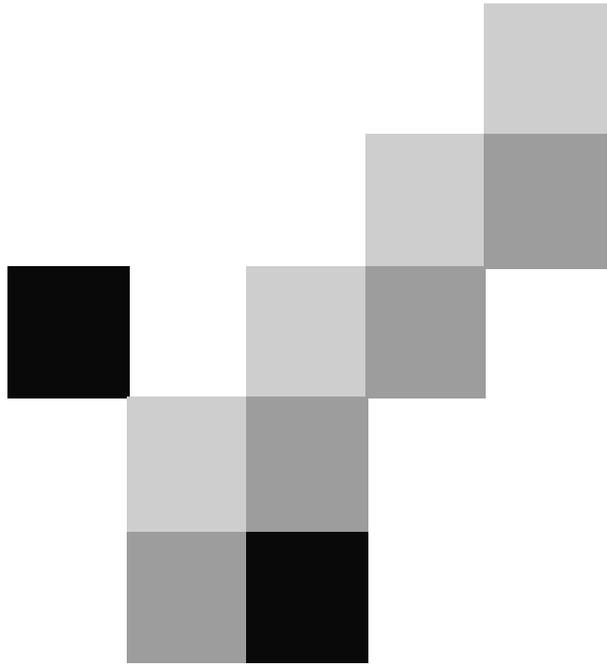
- \$12.6 million GF for numerous salary increases for specific positions
 - DJJ Correctional Officers
 - DOC Correctional Officers
 - Nursing Faculty
 - DOA Accountants
 - Public Defenders through the Indigent Defense Commission
 - Attorneys at Attorney General's Office
 - Prosecutors in Commonwealth Attorneys Offices
 - Forensic Scientist
 - Cemetery Staff at DVS
 - Staff at DMBE



Enhanced Retirement Benefits for Law Enforcement

- SPORS: The budget proposes to increase the retirement multiplier for the State Police Officers Retirement System from 1.7 to 1.85 percent for troopers retiring on or after July 1, 2007
 - No Change to the Supplement
 - Budget includes \$2.3 million GF in FY 2008
 - Actuarial impact is unknown

- Enhanced Funding to Localities for LEOS: \$11.5 million GF included in FY 2008 to incentivize localities to participate in LEOS
 - Nonparticipating localities must elect to participate by May 1, 2008
 - Localities currently participating in LEOS also receive the grant
 - Payments are limited to state supported sheriffs deputies and officers, and jail superintendents



General Government



General Government: Judicial

- Supreme Court of Virginia
 - \$9.0 million GF in FY 2008 to increase reimbursements to court appointed attorneys
 - Language is included to allow the Executive Secretary of the Supreme Court to waive the fee cap for certain types of cases
 - \$0.7 million GF in FY 2008 for foreign language interpreters
- Indigent Defense Commission
 - \$1.2 million GF to provide a 10 percent salary increase to public defenders
 - \$1.5 million for 18 additional staff in public defender offices
 - \$0.8 million for 25 percent salary increases and 8 additional positions for offices dealing with capital cases
- Circuit Courts
 - A reduction of \$3.3 million GF in the Criminal Fund in FY 2008 based on the increase in staffing for public defenders



General Government: Finance

- Department of Accounts

- \$1.4 million GF for 14 positions in risk management and internal control functions
- \$0.3 million GF to provide compensation adjustments for accounting staff

- Department of Taxation

- \$0.8 million GF in FY 2008 to establish an offsite location for computer systems and information in case of disaster



Technology

- Virginia Information Technologies Agency (VITA)
 - \$3.3 million GF in FY 2007 for unrealized savings assumed from VITA implementation
 - Reduces VITA's MEL by 653 positions in FY 2007 and an additional 25 positions FY 2008
 - Proposes language allowing the Director of DPB to transfer appropriation between executive branch agencies to reflect any cost shifts from new VITA rates