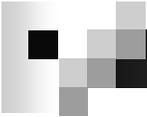


# 2008 Session

**Budget Overview**

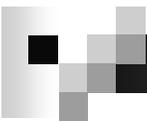
**Amendments to FY 2006-08  
Budget**

**Proposed FY 2008-2010 Budget**



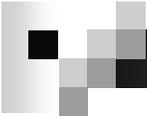
# FY 2007 Shortfall

- FY 2007 revenues finished \$234.4 million below the forecast
- Section 2.2-1503.3 of the *Code of Virginia* requires a re-estimate of general fund revenues if the collections of net individual, sales and corporate income taxes are 1.0 percent or more below the Official forecast
  - The FY 2007 shortfall exceeded the \$139.6 million threshold
- The Governor convened the Governor's Advisory Board of Economists (GABE) to develop the August 2007 interim forecast
  - GABE consists of 15 private and public sector economists who review the economic assumptions and methodology
  - Global Insight's May economic model was used for the national forecast
  - The Virginia forecast is driven primarily by the national economic outlook
  - Virginia economic model adjusts Global Insight's model to incorporate Virginia-specific data and also reflects any recommended adjustments suggested by GABE and GACRE
- August reforecast produced an estimate for FY 2008 that is \$406.7 million below that which was assumed in Chapter 847
- Combined with the \$234 million shortfall in FY 2007, this produced the estimated FY 2008 gap of \$641 million announced by Governor in August



# Economic Outlook Assumptions in HB 29/30

- Governor's budget is based on Global Insight October economic outlook
- Generally, that economic outlook was consistent with the August 2007 forecast revision. Assumes that:
  - The U.S. economy continues to expand, although into a period of slower growth
  - Payroll employment expected to grow, albeit at below trend-line pace
  - Downward adjustments reflect the downturn in housing, slowed consumer spending and employment growth
- Reflects several positive and negative factors:
  - Housing/credit crunch continuing to dampen growth in construction employment and housing-related purchases (building materials, furnishings)
  - Consumer spending growing at a much slower rate following years of spending increases exceeding increases in personal income
    - Home equity withdrawal had fueled consumer spending
    - Credit crunch extends beyond mortgage market
  - Stock market gains have propped up nonwithholding revenues
  - Dollar's low value is resulting in big increases in exports



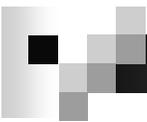
# HB 30: Virginia's Economic Outlook FY 2008-2010

- Outlook projects that Virginia will again out-pace the nation in job, personal income, and wage and salary growth
  - The December forecast reflected small changes in wages and salaries from the official forecast issued in August 2007
    - Wage and salary growth is expected to remain in trend range due to the concentration of high-paid jobs (Professional and Business Services) being created in NoVA
    - Payroll withholding will be aided through strong wage and salary growth, which will help offset weaker employment growth
- Employment growth moderated in FY 2007. The outlook suggests job growth to be below 2% over the forecast horizon
  - NoVA job growth is expected to lead the state, albeit at a slower rate
    - Slower federal spending and low unemployment rate will restrain job growth to between 2 – 3 percent
  - Business and professional services jobs continue to lead in the “crescent”
  - Manufacturing is expected to see further declines



# Revenue Outlook for FY 2008-2010

- The underlining revenue outlook for payroll withholding is for revenue growth to be consistent with historical trends of between 5.5% and 6.0%
- Sales tax is expected to grow below the rate of personal income
  - Adjustments in the sales tax base reflect a decline in housing-related sales tax activity
  - Higher energy prices and low consumer confidence will exert additional downward pressure
- FY 2008 corporate income is forecasted to decline due to housing-related companies (home builders, financials, building supply companies)
  - FY 2009 and 2010 corporate tax revenues are expected to remain flat as the housing sector begins to stabilize



# What Does this Mean for Overall GF Revenue Growth?

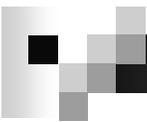
- The overall GF growth rates for 2008–2010 suggest a revenue outlook that is not materially changed from the August re-forecast
  - FY 2009: 3.3 percent (5.2 percent economic growth)
  - FY 2010: 6.7 percent
  
- Revisions to the Lottery forecast based on FY 2007 actual performance and the introduction of new games to counter the North Carolina lottery
  - Revision produces an additional \$44.6 million in additional revenues in FY 2008 bringing forecast to \$450.0 million per year
  - The forecast increase is carried forward into FY 2009 and FY 2010 as well
  
- FY 2009 growth rate also reflects the revenue impact of several previously adopted tax policy adjustments, including the elimination of the estate tax and the impacts of HB 3202



# Policy Adjustments Reflect Actions Approved in 2006 and 2007

	<u>FY 09</u>	<u>FY 10</u>
Land Preservation Tax Credit	\$125.0	\$70.0
Filing Threshold	\$13.6	\$13.4
Sales Tax Holiday:Hurricane/ Energy Efficient	\$1.7	\$1.8
Annualize Estate Tax Repeal	\$78.0	\$78.0
1/3 Ins. Premium to TTF*	\$134.5	\$139.6
3 cents Recordation to TTF	\$53.9	\$58.8

\*A corresponding adjustment in the GF operating budget of \$110.0 million is made reflecting the appropriation in FY 2008



# Global Insight's Outlook Has Changed

- Since the revenue forecast was developed in November, the national economy has continued to slow
- Global Insight's January outlook has been revised downward
  - GDP is expected to grow around 1 percent over the next 6 months, revised down from 1.2 percent in November
  - Probability of a recession has increased to 40 percent
    - Moody's Economy.com puts the probability at 48 percent
    - Goldman-Sachs now predicting negative growth in the first half of 2008
  - Global Insight's forecast includes the assumption that oil prices will drop back to the \$75/barrel range by the second calendar year quarter and remain at about \$70/barrel over the next 10 years
    - Since the revision was released, oil prices have increased and Goldman Sachs now predicts oil to remain in the \$95/barrel range for near-term future
    - This could provide a further drag on the economy



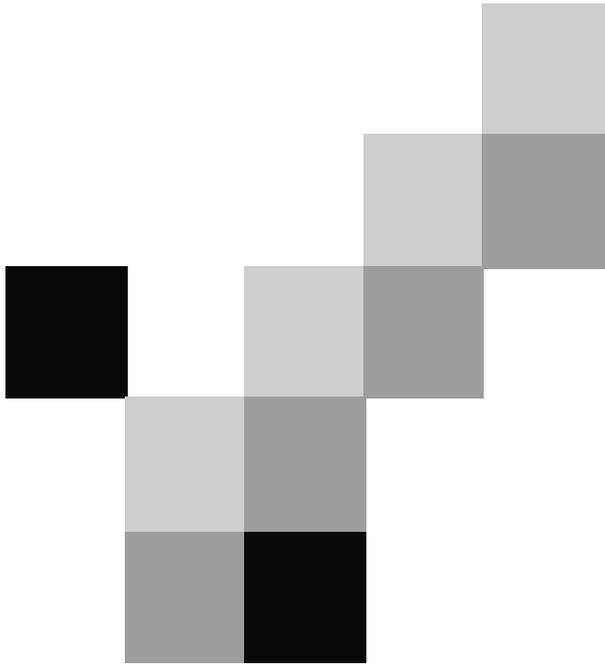
# Economic Trends Impacting GF Revenues

- There are three major trends impacting economic growth
  - Housing slump/credit tightening
  - Increasing energy prices
  - Slower employment growth
- The broader impact of these factors on the economy can be seen in consumer confidence, which has declined in recent months
  - The Conference Board Consumer Confidence Index hovering at a 2-year low
- Energy prices have been moving towards \$100 a barrel
- Initial reports of retail sales for the holiday season fell below expectations
- Institute for Supply Management (ISM index) fell below to 47.7 percent, lowest reading since April 2003
- Unemployment rate rose to 5 percent in December – highest in 25 months
  - December job growth of 18,000 the weakest in 4 years
  - Financial, construction, manufacturing, and retail all reported job losses
  - Fewer than half of the industries were hiring in December, first time since September 2003 that fewer than half were adding jobs



# Potential Impact of Revised Outlook

- Are GF revenue collections reflecting a further slowdown in the economy?
  - Preliminary estimates of December nonwithholding taxes indicate average check size is down substantially
    - Because payments aren't due until January 15, the picture is incomplete until both months' collections are seen
  - Through November, sales tax collections were just meeting an anemic 2.8 percent growth forecast
    - Won't see full impact of holiday season on sales tax collections until the January revenue report
    - December report may overstate sales because of early Thanksgiving date
    - Oil prices further dampen consumer discretionary spending
  - Payroll taxes, which comprise more than 55% of GF revenues and are a leading economic indicator, are underperforming year to date
    - Through November, withholding tax collections grew only 5.0% compared to a 5.6% forecast for year
    - Jobs report released last week fell far short of expectations



House Bill 29



# House Bill 29 Spending Overview

- HB 29 contains approximately \$173.5 million GF in increased spending
  - Mandatory spending makes up \$117.2 million of the total, including the following:
    - CSA: \$54.3 million
    - Criminal Fund: \$15.0 million
    - Local/Regional Jail Per Diems: \$14.9 million
    - Compensation Board Benefit Correction: \$12.3 million
    - VITA Rates and elimination of savings: \$9.6 million
    - Child Welfare: \$3.9 million
    - State Trooper gasoline increases: \$2.4 million
    - FAMIS and Medicaid caseload: \$2.3 million
    - Other: \$2.5 million
  - Also included is \$50.0 million for maintenance reserve in current fiscal year
  - \$6.3 million in other discretionary spending
    - \$4.0 million in additional interest earnings and credit card rebates to higher ed
    - \$1.5 million for Governor's Opportunity Fund
    - \$800,000 for mortgage counseling initiative

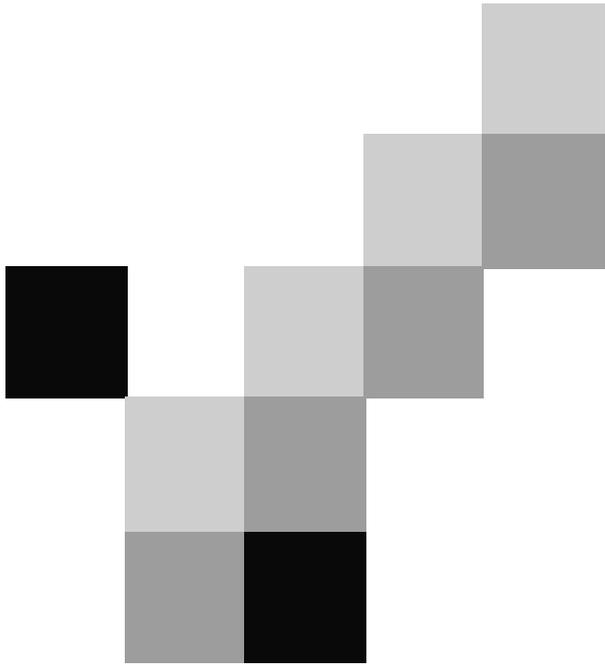


# House Bill 29 Savings Overview

- HB 29 includes budgetary savings of about \$396.6 million
  - This includes \$272.0 million in agency operating savings announced in October
  - The remaining savings reflect forecast and caseload adjustments totaling \$122.1 million as follows:
    - Medicaid forecast: \$49.7 million
    - K-12 Adjustments: \$54.4 million (K-12 includes sales tax adjustments, SOQ program costs and incentive and categorical programs)
    - Health Care Fund forecast: \$13.2 million
    - Debt service adjustments: \$2.5 million
    - Involuntary mental commitments: \$1.3
- In combination, new spending, budgetary savings and the proposed Rainy Day Fund withdrawal of \$261.1 million results in an HB 29 year-end balance of \$28.9 million as the starting balance for HB 30

# HB 29 – How Gap Was Addressed

	\$\$ in Millions
August Shortfall	(641.0)
GF Revenue Forecast Revisions	38.2
Lottery Forecast Revisions (FY 07 and FY 08)	76.4
2007 Balance Reversions	100.9
October 1 Savings	296.6
Technical Spending Adjustments (SOQ, Medicaid, etc)	121.1
<b>Remaining Gap</b>	<b>(8.0)</b>
Mandatory Spending	117.2
<b>Shortfall After Spending Adjustments</b>	<b>(125.2)</b>
RDF Withdrawal	261.1
Net Loss of RDF Transfer and Deposit Reduction	(50.9)
Net RDF	210.2
Balance After Rainy Day Fund Withdrawal	85.0
Maintenance Reserve	50.0
Other Discretionary Spending	6.3
<b>Balance Forward to FY 2008-2010 Biennium</b>	<b>28.9</b>



House Bill 30

# Adjusted Base Budget for FY 2009/10

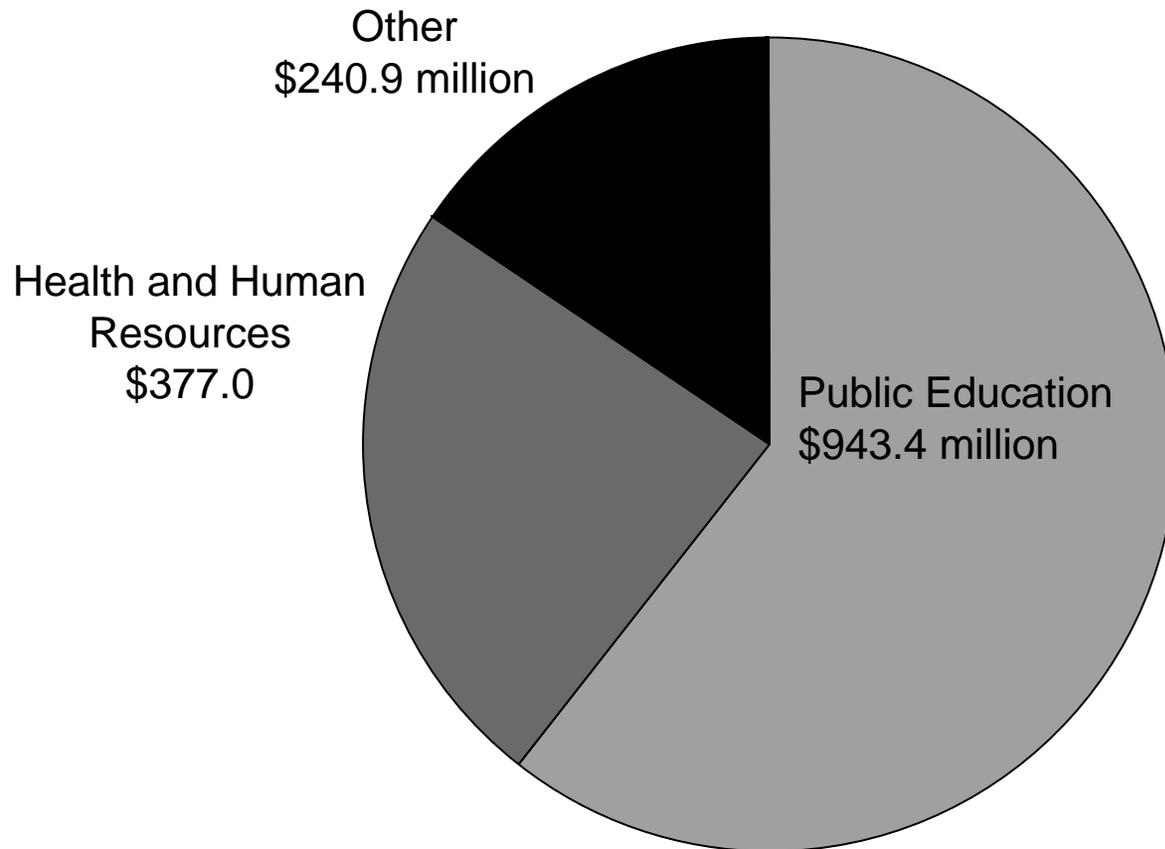
(GF Dollars in Millions)	FY 2009	FY 2010
HB 29 Ending Balance	\$28.9	
Adjustments to Balance	\$10.6	(\$0.5)
Revenue Forecast	\$16,610.8	\$17,724.7
Transfers	\$820.5	\$822.6
Transportation Reversion	\$180.0	
<b>Total Resources</b>	<b>\$17,650.9</b>	<b>\$18,546.8</b>
<b>Adjusted Base Budget</b>	<b>\$16,715.5</b>	<b>\$16,694.0</b>
Mandatory/High Priority Spending	\$749.2	\$1,084.9
Salary Increases	\$0.6	\$255.1
New Initiatives/Program Expansions	\$176.9	\$264.3
Capital	\$2.5	\$51.5
<b>Subtotal - Spending</b>	<b>\$929.1</b>	<b>\$1,655.7</b>
Repay Transportation		\$180.0
<b>Grand Total Spending</b>	<b>\$929.1</b>	<b>\$1,835.7</b>
<b>Total Budget</b>	<b>\$17,644.6</b>	<b>\$18,529.7</b>
Unappropriated Balance	\$6.2	\$17.1

# HB 30 General Fund Spending

<b>Spending Area</b>	<b>FY 2009</b>	<b>FY 2010</b>
Mandatory	\$663,214,409	\$898,163,710
High Priority	\$70,448,753	\$59,265,343
Salary Adjustments	\$566,673	\$255,091,964
Caseload Adjustments	\$70,490,272	\$102,431,044
Reorganizations	(\$2,381,234)	(\$6,241,554)
Transportation Repayment	0	\$180,000,000
New Initiatives	\$96,580,236	\$161,141,991
Program Expansions	\$80,005,394	\$103,911,122
Other	(\$279,758)	(\$1,146,826)

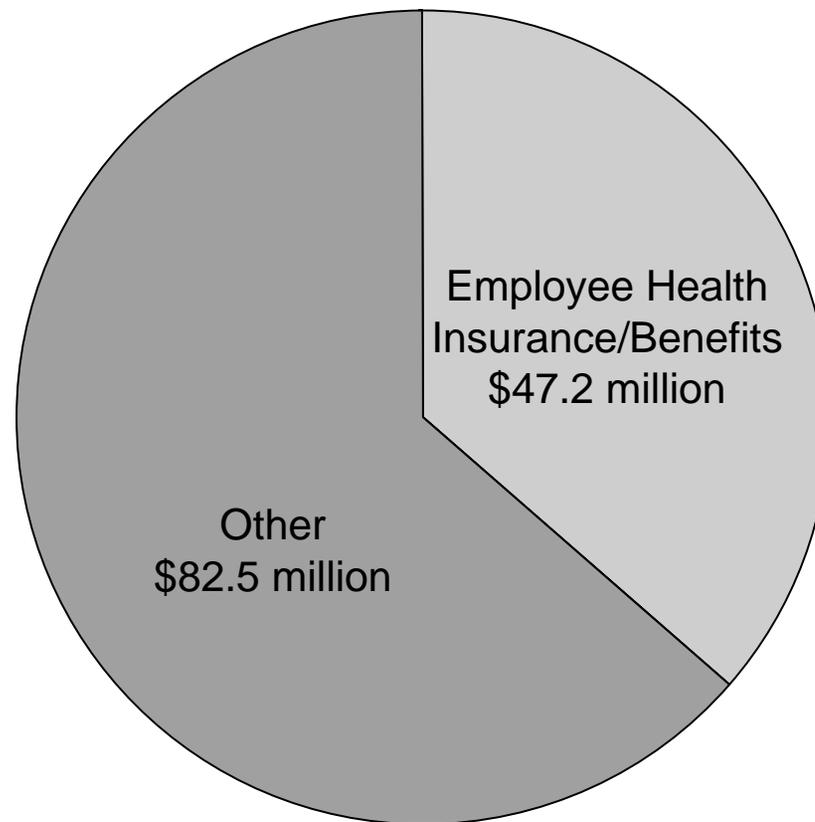
# Mandatory GF Spending – HB 30

Total Biennial Spending: \$1.6 billion



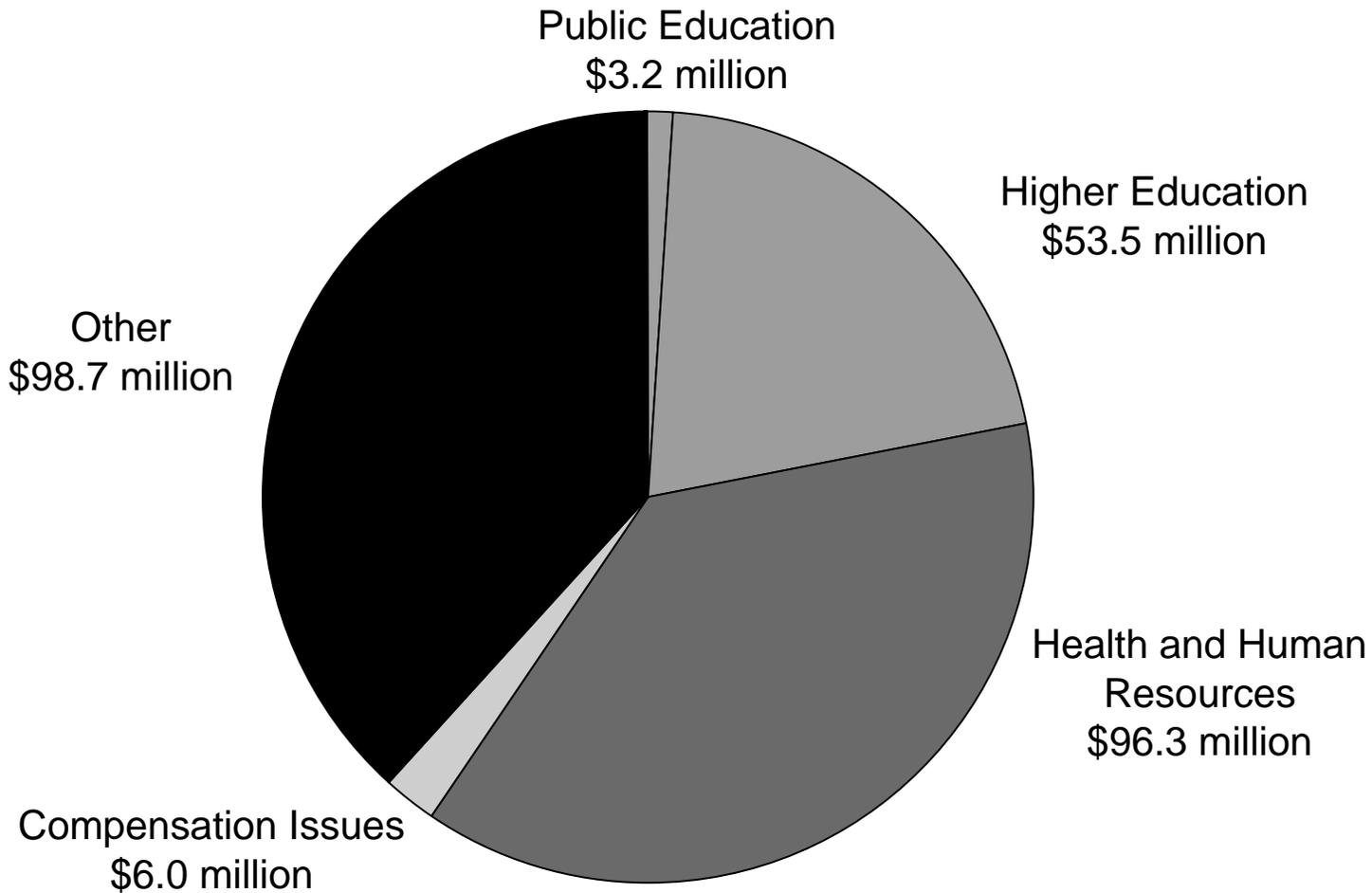
# High Priority GF Spending – HB 30

Total Biennial Spending: \$129.7 million



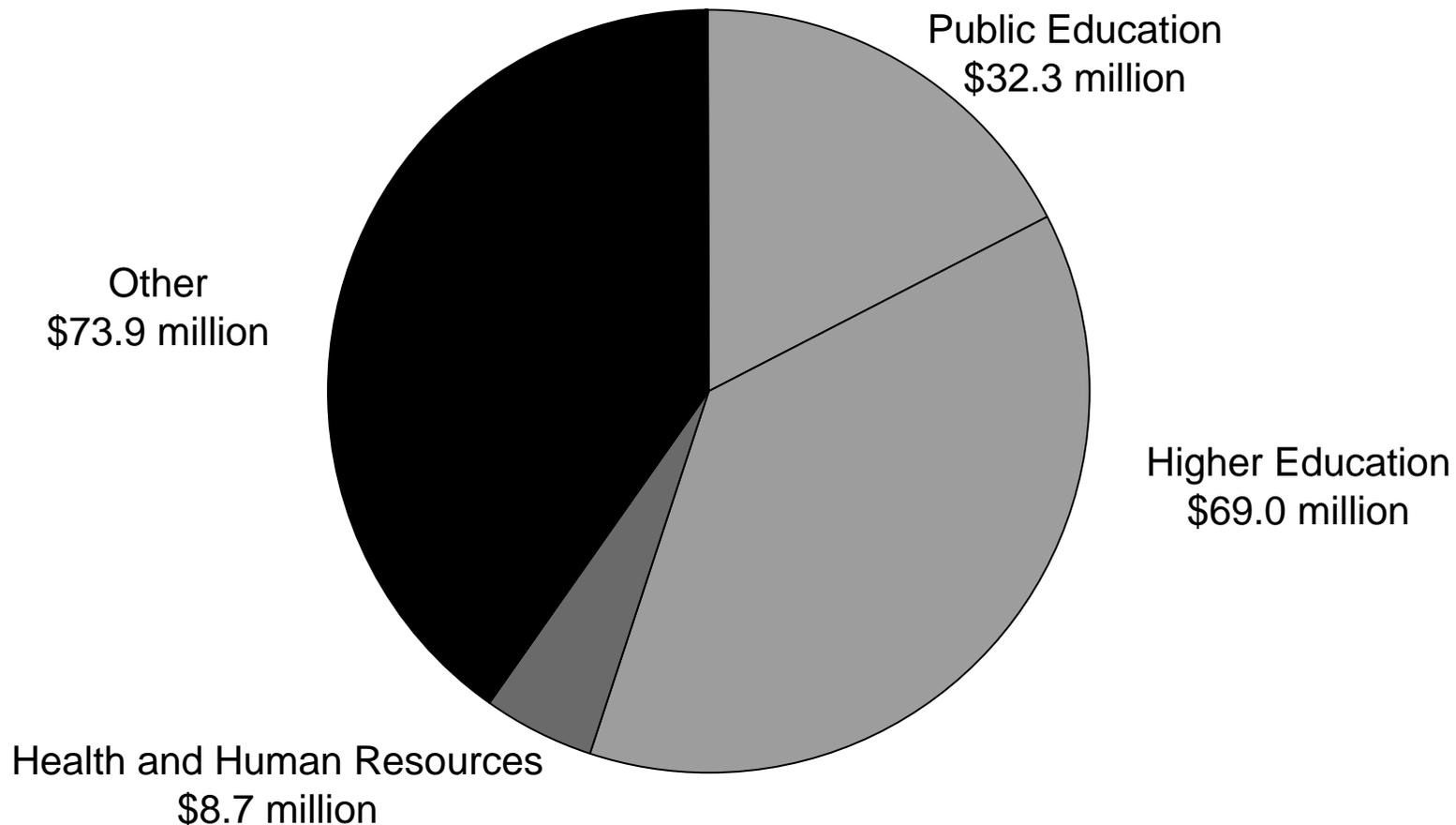
# New Initiatives – HB 30

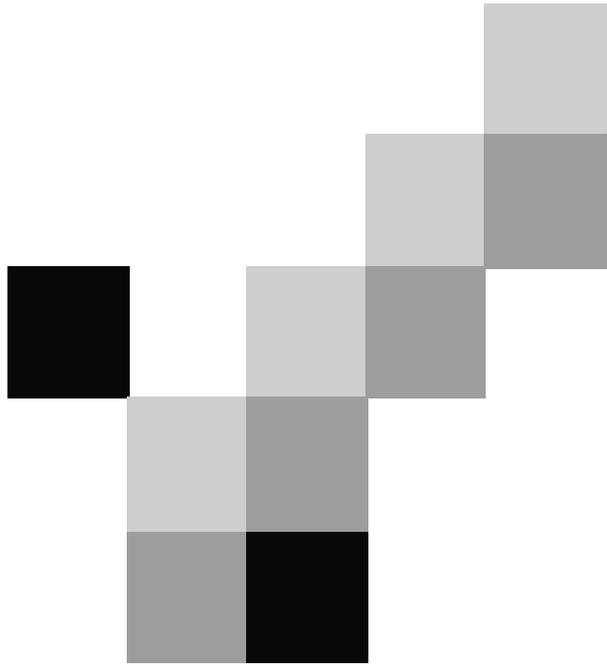
Total Biennial Spending: \$257.7 million



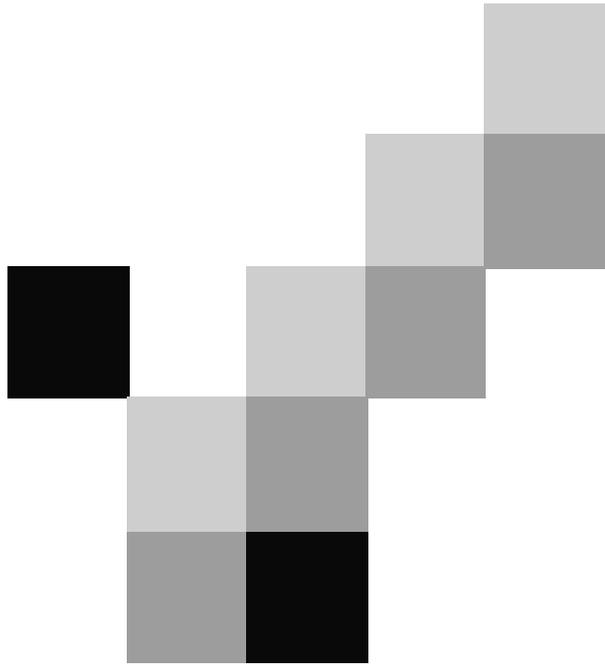
# Program Expansions – HB 30

Total Biennial Spending: \$183.9 million

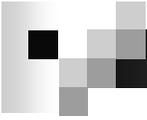




# Details by Secretarial Areas



# Public Education



# HB 29: Public Education

- Technical updates for FY 2008 result in net decrease of \$54.4 million GF:
  - ADM reductions produce \$33.1 million savings
    - SOQ, Remedial Summer School, Governor's School, & Special Education Homebound
  - Sales Tax estimate adjustment: \$17.8 million decrease
  - Virginia Preschool Initiative (VPI) lower participation: \$5.3 million savings
  - Reserve of \$1.7 million held for a 2<sup>nd</sup> round of one-time start-up expansion grants
  - No Child Left Behind lower participation: \$1.8 million savings
  - Incentive & Categorical adjustments: \$2.0 million increase
  
- National Board Certification Teacher Bonus: increase of \$404,125 to fill a shortfall based on higher participation



# HB 30: Public Education Biennial Spending Total

## Direct Aid

GF \$ in millions

Direct Aid Re-benchmarking	\$942.5
Teacher 3.5% Raise	132.4
Virginia Preschool Initiative	30.2
Programs Transferred from Central Office	6.8
Program Expansions	3.4
New Initiatives	2.6
Budget Savings	(7.2)
<u>Literary Fund Net Transfers</u>	<u>(30.0)</u>

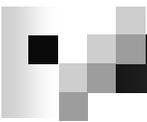
## Total

**\$1,080.7**

# Re-Benchmarking Costs

- HB 30 includes re-benchmarking costs of \$942.5 million GF
- Costs for re-benchmarking are \$159.3 million lower than estimated in July primarily due to slower student membership growth, lower benefit rates, and updates to incentive and categorical programs

	<u>FY 2009</u> (\$ in millions)	<u>FY 2010</u> (\$ in millions)	<u>Total</u> (\$ in millions)
Base Year Expenditures	\$197.5	\$196.8	\$394.3
Funded Instructional Salaries	117.0	117.3	234.3
Health Care Premiums	62.1	62.4	124.5
Inflation	41.0	43.8	84.8
Transportation	32.7	48.9	81.6
Sales Tax - net	7.8	37.9	45.7
Lottery - net	17.2	17.2	34.4
Textbooks	12.5	12.6	25.1
Incentive & Categorical	5.4	16.5	21.9
Composite Index	4.9	5.0	9.9
Enrollments	(29.8)	(25.4)	(55.2)
Benefits Rates	<u>(29.3)</u>	<u>(29.5)</u>	<u>(58.8)</u>
<b>Revised Re-benchmarking Costs</b>	<b>\$439.0</b>	<b>\$503.5</b>	<b>\$942.5</b>



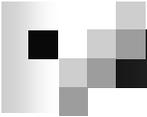
# Re-Benchmarking

- Re-Benchmarking Components:
  - Changes in student enrollment
    - Increases in March 31<sup>st</sup> Average Daily Membership (ADM) from adopted FY 2008 ADM
      - FY 2009: 401 additional students; to 1,200,102; 0.03% growth
      - FY 2010: 7,991 additional students; to 1,207,692; 0.66% growth
  - SOQ positions' funded salary increase adjustments
    - Elementary teachers: from \$39,681 to \$44,337, or 11.7%
    - Secondary teachers: from \$41,614 to \$46,230, or 11.1%
    - Other SOQ instructional positions increased by an average of 8.0%
      - Principals, asst. principals, instructional assistants
  - Fringe benefits rate changes
    - VRS: decreased from 10.30% to 9.35%
    - Retiree Health Care Credit: decreased from 1.16% to 1.12%
    - Group Life: decreased from 0.40% to 0.36%
    - Health Care: increased from \$4,274 to \$5,211, or 21.9%



# Re-Benchmarking

- Re-Benchmarking SOQ Components:
  - Composite Index
    - Changes in local 'ability to pay' as calculated by the funding formula:
      - True real estate values; weighted at 50%
      - Adjusted gross income; weighted at 40%
      - Sales tax; weighted at 10%
    - Base year data: from 2003 to 2005
    - Changes at local level are measured against statewide level changes
    - 84 divisions declined, 44 increased, 8 remained the same
  - Textbooks
    - Increased from \$102 to \$119, or 17.3%
  - Inflation Factor
    - 5.39% with soft cap
    - Applied to support cost calculations in the basic aid payment
  - Annual School Report (ASR) cost data
    - Total money spent on public education from all funding sources (local, state & federal)
    - Base year data: from 2004 to 2006



# Salary and Benefit Adjustments

- Introduced budget provides \$132.4 million GF in the second year for a 3.0% salary increase for all SOQ positions and an additional 0.5% increase for teachers
  - Effective July 1, 2009
  - Incentive-based funds – optional participation
    - Locality determines what salary increase will be provided
    - Total increases reflected in future re-benchmarking updates
- Proposes adjusting the benefit rates that are built-into the re-benchmarking costs for a net savings of \$58.8 million GF in the biennium:
  - VRS from 10.30% to 9.35%
    - Proposed rate is 2.49 points lower than the 11.84% adopted by VRS Board in October 2007
  - Retiree health care credit from 1.16% to 1.12%
  - Group life from 0.40% to 0.36%



# New Initiatives – Public Education

- At-Risk Add-on New Initiative:
  - Adds \$2.1 million GF in second year for 54 new coordinators to provide support to unaccredited high schools or any schools not meeting Annual Yearly Progress (AYP)
  
- Supplemental Education Programs:
  - Communities in Schools: adds \$500,000 GF in second year for this new initiative



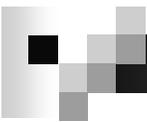
# Program Expansions – Public Education

- Virtual Virginia Advanced Placement Program: adds \$960,000 in second year
- National Board Certification Teacher Bonus: adds \$926,625 each year to fully fund based on estimated eligibility and participation
- Supplemental Education Programs:
  - Career Switcher Mentor Program: adds \$100,000 GF each year
  - Project Discovery Program: adds \$100,000 GF in second year
  - Virginia Career Education Foundation Program: adds \$75,000 GF each year
- Special Education (IDEA): increase of \$100.0 million NGF each year from federal grants

# Literary Fund

<b><u>Literary Fund Uses:</u></b>	<b><u>FY 2008</u></b> (\$ in millions)	<b><u>FY 2009</u></b> (\$ in millions)	<b><u>FY 2010</u></b> (\$ in millions)
Teacher Retirement	\$124.9*	\$171.1	\$91.1
Technology Debt Service	63.6	64.6	65.4
Interest Rate Subsidy	13.6	14.2	14.6
School Construction Loans	10.1	10.0	10.0
Issuance Costs	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>
<b>Total</b>	<b>\$212.2</b>	<b>\$259.9</b>	<b>\$181.4</b>

\* Includes a one-time adjustment of \$8.8 million from the Governor's October 2007 budget reduction plan



# VSDBM Consolidation

- Continues the consolidation of the two schools for deaf, blind and multi-disabled
  - Reflects a combined net decrease of \$2.7 million and 75 positions by the second year
    - Consolidates the residential program at Staunton
    - Establishes a regional day program in Hampton Roads area
- Proposed changes for the two schools include:
  - Hampton:
    - FY 2009: Reduces funding by a net of \$3.1 million GF & \$0.5 million NGF, transfers 53 positions to Staunton and eliminates 75 positions
      - Retains \$3.6 million GF for transitional costs
    - FY 2010: Eliminates remaining budget allocations by a net of \$6.6 million GF & \$0.5 million NGF
      - Residential program closed; zero budget balance and no positions
  - Staunton:
    - FY 2009: Increases funding by \$4.2 million GF & \$0.3 million NGF & transfers in 53 positions from Hampton
    - FY 2010: Increases funding by \$3.9 million GF & \$0.3 million NGF
      - Consolidated operating budget of \$11.1 million and 196 positions



# Virginia Preschool Initiative (VPI)

- VPI program expansion of \$15.1 million GF in FY 2009 and \$15.1 million GF and \$14.8 million NGF in FY 2010
  - Additional \$10.6 million GF is budgeted in Department of Social Services over the biennium
- Participating school division/grantee can apply for a per pupil amount based on a range of \$5,700 to \$6,790
  - Amount determined by grantee's choice and financial ability to provide the required local match amount within the range
- Caps the local composite index (CI) at 0.5000
  - 27 divisions have a CI greater than 0.5000 and would benefit
- Expands student eligibility from free to free & reduced lunch



# Virginia Preschool Initiative (VPI)

- School divisions must offer 10% of new student slots to private providers
  - Similar to a tuition grant program for private providers
- Each school division/grantee would be eligible for minimum funding for one classroom with 9 student slots
  - Example: school has 1 student enrolled but will receive funding for 9 students
- Adds \$340,000 each year and 3 positions in DOE's central office for preschool evaluations and administration of program expansion
- Adds \$379,550 GF each year in DOE's central office for expansion of early childhood diagnostic assessments (PALS)



# Virginia Preschool Initiative (VPI)

- Current program: FY 2008 funding at \$5,700 per student
  - 18,929 students eligible for 100% funding
    - Estimated cost: \$62.8 million
  - 13,125 students enrolled
    - Actual cost: \$46.9 million
    - Total statewide participation rate of 77.2%
      - 58 divisions: 100% participation
      - 47 divisions: 1% to 99% participation
      - 19 divisions: elected not to participate
      - 12 divisions: not eligible to participate
- Proposal reduces funding from 100% of free-lunch students to 54.5% the first year and 65.5% the second year of the free lunch students

# Virginia Preschool Initiative (VPI)

## *Free Lunch Component*

- Governor's proposal based on funding at \$6,790 per student

	<b>FY 2009</b>	
At-Risk Students	Students Funded based on 54.5% Eligibility	State's Share of Cost based on 54.5% Eligibility
<b>Free Lunch</b>	<b>12,155</b>	<b>\$53,002,625</b>

	<b>FY 2010</b>	
At-Risk Students	Students Funded based on 65.5% Eligibility	State's Share of Cost based on 65.5% Eligibility
<b>Free Lunch</b>	<b>14,851</b>	<b>\$64,529,364</b>



# Virginia Preschool Initiative (VPI)

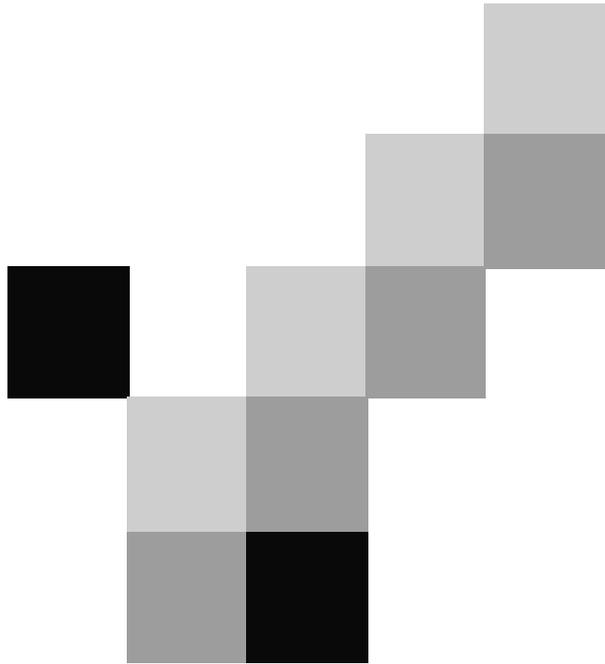
## *Free Lunch Component*

- Policy implications of the proposed program changes result in shifting the financial burden to School Divisions for the slots the State does not participate in funding
  - Localities will have to fund 100% of total program costs for those unfunded free lunch students or not serve them
    - FY 2009: either a \$68.9 million cost shift to the locality or 10,147 students not served
    - FY 2010: either a \$53.1 million cost shift to the locality or 7,819 students not served

# Virginia Preschool Initiative (VPI)

Governor's proposal based on funding at \$6,790 per student

	<u>Share Funded in HB 30</u>		<u>Cost if Fully Funded</u>	
Percent Funded	54.50%	65.50%	100%	100%
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>
<u>Free Lunch Students</u>	12,155	14,851	22,302	22,670
State's Share of Cost	\$53,002,625	\$64,529,364	\$96,715,545	\$98,214,819
<u>Reduced Lunch Students</u>	3,576	4,366	6,579	6,672
State's Share of Cost	\$15,161,544	\$18,490,437	\$27,899,620	\$28,263,710
<b><u>TOTAL Students</u></b>	<b>15,731</b>	<b>19,217</b>	<b>28,881</b>	<b>29,342</b>
<b>TOTAL State's Share of Cost</b>	<b>\$68,164,169</b>	<b>\$83,019,801</b>	<b>\$124,615,165</b>	<b>\$126,478,529</b>



# **Health & Human Resources**



## HB 29: Health & Human Resources

- \$65.7 million GF in increased spending
  - Comprehensive Services Act: \$54.3 million
  - Children's health insurance programs (FAMIS/SCHIP): \$2.2 million
  - Offset loss in federal revenue from revised federal cost allocation for social services: \$3.9 million
  - Restoration of savings at Central Virginia Training Center because resident discharges to community placements have not occurred: \$5.3 million
  
- \$95.4 million GF in savings from Governor's October 2007 reductions



## HB 30: Health & Human Resources

- Statutory and mandatory spending
- Proposed new spending initiatives
- Proposed program and service expansions



# Mandatory Spending: \$567.5 million GF

- Medicaid utilization and inflation: \$344.0 million
- Comprehensive Services Act: \$158.6 million
- Children's health insurance (FAMIS/SCHIP): \$27.2 million
- Offset loss in federal revenue from revised federal cost allocation for social services: \$23.9 million
- Foster care & adoption subsidies caseload and cost increases: \$10.5 million
- Offset loss of federal funds for child support enforcement operations: \$3.3 million



# Medicaid Program Growth: \$344.0 million GF

- Reflects growth in the FY 2008 Medicaid base
- Medicaid utilization and inflation totals:
  - \$98.7 million GF in FY 2009 (6.0% growth)
  - \$245.3 million GF in FY 2010 (5.0% growth)
  - Percentage growth is lower than prior years



# Factors Driving Medicaid Growth

- Medical inflation
- Enrollment increases
  - 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 of the 2007 Session)
  - Northern Virginia rate differential for providers of mental retardation & developmentally disabled waiver services
  - Physicians
- Rebasing of hospital and nursing home rates



# CSA Program Growth: \$158.6 m. GF

- Reflects growth in FY 2008 base
- Caseloads estimated to increase by 8% each year compared to recent increases of about 3.8%
- Costs estimated to increase by 10% annually



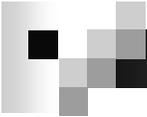
# Factors Driving CSA Costs

- Number of children receiving more intensive services is growing
  - In FY 2007, 78 more children receiving services costing more than \$100,000
  - 82 more children with special education disability of autism
- 3 service types are driving expenditure increases:
  - Therapeutic foster care (29% of total expenditure increase)
  - Special education private day placement (23% of total expenditure increase)
  - Residential treatment facility (17% of total expenditure increase)
- Federal and state statutory changes
  - Chapter 840 (2007 Session) requires CSA to serve children requiring mental health services to avoid placement in foster care
    - JLARC estimate in March 2007 of the fiscal impact was \$14.3 million GF in FY 2008
    - 2008-10 biennial cost is estimated to be \$33 million GF
  - Federal Deficit Reduction Act of 2005
    - More difficult for children to qualify for the federally-funded Title IV-E foster care program
    - Eliminated federal Medicaid matching funds for most therapeutic foster care services provided to children and adolescents in CSA
    - These changes are estimated to have increased state costs from \$5.5 million to \$17.0 million annually
- JLARC March review found current CSA policy restricting foster care preventive services to community care was not consistent with CSA law
  - Recent CSA policy changes to comply with law are expected to increase costs



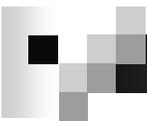
## HHR New Spending Initiatives: \$110.1 million GF

- Mental health initiative: \$41.6 million
- Child welfare initiative: \$25.8 million
- Health care reform initiative: \$21.3 million
- Pre-K early childhood education initiative  
(exclusive of funding in Public Education): \$10.6  
million
- Other new initiatives: \$10.7 million



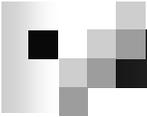
# Mental Health Initiative: \$41.6 million GF

- \$39.7 million GF proposed to expand services provided through Community Services Boards (CSBs):
  - \$14.6 million to expand access to 24-hour emergency services
    - \$50,000 per CSB for emergency psychiatric consultations
    - \$70,000 per CSB for emergency clinicians
    - 36-40 new crisis stabilization beds in small 6-8 bed community facilities
  - \$8.8 million to add 106 mental health (MH) case management workers
    - 40 MH case managers – one for each CSB
    - 66 MH case managers distributed to CSBs based on local need and capacity
  - \$6.0 million to expand jail diversion services to 300-500 individuals
  - \$5.8 million to add 40 children's mental health clinicians – one per CSB
    - Will serve children who are NOT eligible for services through CSA
  - \$4.5 million to add 40 outpatient clinicians and therapists – one per CSB
- \$1.9 million GF for DMHMRSAS central office for oversight and training:
  - \$875,000 and 4.0 FTEs to expand monitoring of CSBs
  - \$473,116 and 4.0 FTEs to expand licensing and investigative functions
  - \$600,000 for a law enforcement training program on crisis intervention
- Language in DMAS to apply utilization management to Medicaid community mental health services (including CSA)
  - Savings of \$4.2 million GF annually



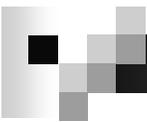
## Child Welfare Initiative: \$25.8 million GF

- \$12.2 million GF to increase payments for family foster care rates by 25 percent over biennium through CSA and DSS
- \$7.0 million GF to increase foster and adoptive family recruitment, support, training and retention
- Adds \$4.4 million to increase training of child welfare workers for better permanency outcomes
- Adds \$2.0 million over biennium to add 30 local case workers to increase foster care visitation rates
- \$277,000 for system to collect outcome date on children in CSA
- Changes local match rates in CSA to encourage use of community-based care
  - Saves \$1.5 million GF in FY 2009 and \$11.0 million in FY 2010



# Health Care Reform Initiative: \$21.2 million GF

- \$10.0 million GF for safety net providers
  - \$3.6 million for community health clinics
  - \$3.4 million for free clinics
  - \$3.0 million for Virginia Health Care Foundation grants to expand safety net services
- \$7.8 million GF to phase in a health insurance program for low-income working adults
  - Would serve 5,000 individuals working in small businesses with incomes less than 200% of the federal poverty level
  - Capped insurance product covering up to \$50,000 in claims each policy year
  - Would subsidize up to 1/3 of the premium cost not to exceed \$75 per month (1/3 paid by employer and 1/3 paid by individual)
  - Individual must be uninsured or have employer who did not offer health insurance for 6 months prior to enrollment
  - Small employers could offer capped product if they have not offered health insurance to their employees for 6 months prior to entering program
- \$2.6 million over the biennium to expand FAMIS Moms from 185% to 200% of the federal poverty level
- \$300,000 in FY 2010 to expand breast and cervical cancer screening for low-income women (would serve 1,333 additional women)
- \$311,074 GF and two FTE positions for the Office of Minority Health and Public Health Policy to assist in designating federal Health Professional Shortage areas, federal Medically Underserved Areas and Medically Underserved Populations
- \$150,000 for the Uninsured medical Catastrophe Fund
- \$100,000 for the Virginia Dental Foundation's Mission of Mercy Dental Project
- \$90,221 to expand FAMIS to all newborn births up to 2 months post delivery born to FAMIS enrollees



## Pre-K Early Childhood Education: \$10.6 million GF and \$14.8 million TANF

- \$14.8 million NGF from federal TANF block grant funds to support Pre-K program through the Department of Education
- \$4.6 million and 3 FTE positions to implement a voluntary quality rating system for early childhood education programs
- \$4.0 million for early childhood education scholarships
- \$2.0 million for Virginia Early Childhood Foundation grants to develop delivery systems for high quality early childhood education



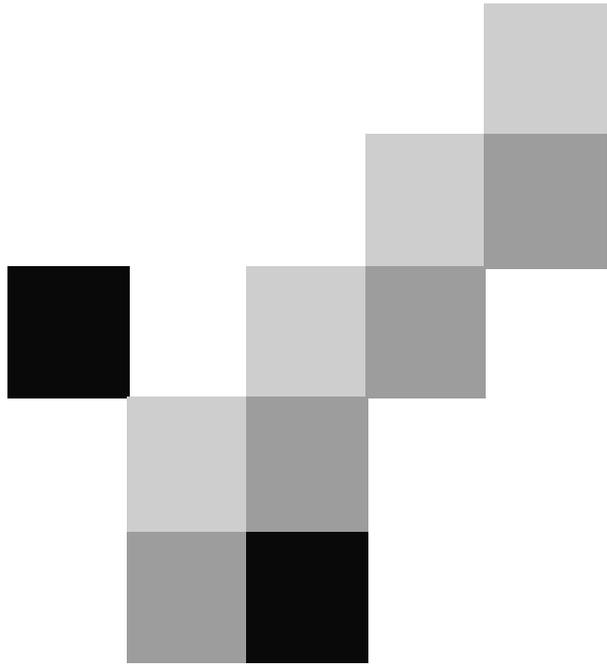
## HHR Other Spending Initiatives: \$10.7 million GF

- \$5.9 million to increase staffing at the Virginia Center for Behavioral Rehabilitation
- \$1.1 million to provide staffing for local pilot reentry programs
- \$1.0 million to realign salaries in the Office of the Chief Medical Examiner
- \$870,000 for increased lease costs at local health departments
- \$500,000 to fund positions in the Health Department's Office of Drinking Water Programs



## HHR Program Expansions: \$9.0 million GF

- 75 new mental retardation waiver slots in first year and an additional 75 slots in the second year: \$7.2 million
- Domestic violence prevention services: \$576,000
- Office of Newcomer Services: \$500,000
- Brain injury case management services: \$200,000
- Community Resources Manager for autism services: \$200,000 and 1 FTE position



# Capital Outlay



# HB 29: Capital Outlay & Treasury Board

- Reductions to debt service in Treasury Board of \$2.5 million GF due to refunding and draw schedule changes
- \$50.0 million GF for maintenance reserve
  - Contingent on meeting revenues
- \$93.0 million in Virginia Port Authority bonds



# HB 30: Treasury Board

## ■ Treasury Board Debt Service

- **Previously authorized** projects: \$54.9 million GF in FY 2009 and \$84.5 million GF in FY 2010
- **Proposed** new projects in HB 30 and General Obligation bond bill: \$42.4 million GF in FY 2010



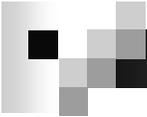
# HB 30: Capital Outlay

- HB 30, as introduced, provides \$1.9 billion in capital outlay funding
  - \$54.0 million GF primarily for maintenance
  - \$707.8 million in VCBA / VPBA tax-supported bonds
  - \$302.6 million NGF revenue projects
  - \$837.1 million in bonds supported by NGF revenue bonds
- In addition, \$1.5 billion in General Obligation bonds are proposed for higher education and state museums



# HB 30: VCBA / VPBA Tax-Supported Bond Projects: \$707.8 million

	<u>GF \$ in millions</u>
New Construction Projects	\$ 422.0
New Major Renovation Projects	133.8
Equipment for Projects Scheduled to Open 2008-10	61.4
Property Acquisitions	58.6
Cost Overruns on Previously Approved Projects	<u>32.0</u>
Total VCBA / VPBA Bonds	\$707.8



# 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	\$ 155.0
9(c) Revenue Bonds	350.6
9(d) Nongeneral Fund Revenue Bonds	331.5
Nongeneral Funds	<u>302.6</u>
Total Nongeneral Funds	\$1,139.7



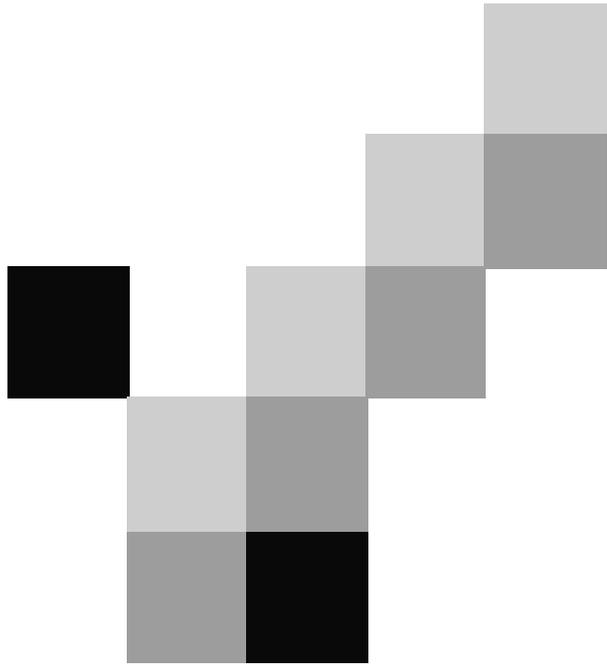
# General Obligation Bonds

- Separate legislation proposes \$1.5 billion in general obligation (GO) bonds for new construction and renovation projects at higher education institutions and state museums
  - Requires voter approval
  - New construction projects total \$1,097.7 million
  - Renovation projects total \$427.8 million
- \$31.6 million GF of debt service is provided in the Treasury Board in FY 2010
  - Estimated debt service cost in 2010-2012 biennium is \$148.2 million



# General Obligation Bonds

- Bond referendums have typically been utilized every 8-10 years
- Referendums have normally included both parks and mental health
  - 2002 was an exception as mental health was in the process of restructuring services delivery
- The 2002 GO bond program has about \$350 to \$450 million in bonds yet to be issued (about 40% of the total authorized)
- Other construction bonds in the pipeline include:
  - \$369.1 million in VPBA projects
  - \$112.9 million in VCBA college buildings
  - \$3.0 billion in transportation projects
  - \$317 million in 9(c) projects such as dorms and dining halls
- The legislature has provided planning funds for about \$400 million worth of projects, primarily for higher education, that are ready to go



# Higher Education



# Higher Education Spending

- New GF spending totaling \$117.1 million is proposed in HB 30
- Almost the entire amount of new spending reflects ongoing commitments



# HB 30: Higher Education Institutions

- **Base Operating Support**
  - \$44.3 million GF for the biennium to address institution base operations and enrollment
  - Recommends one percent increase for 13 institutions that are above 95 percent of their base funding guideline
  - The four institutions below 95 percent of their funding guideline would receive funding calculated to move them one-half of the distance to the 95% funding guideline goal
  - Funding is not tied to tuition increase incentives
- **Interest Earnings**
  - \$16.7 million in FY 2009 for financial incentives tied to restructuring goals
- **Student Financial Aid**
  - Additional \$9.1 million GF each year over the current \$126.1 million GF level
  - The average student financial aid increase is 7.2 percent



# HB 30: New Initiatives & Program Expansions

- About \$57.2 million GF is earmarked for other new initiatives and program expansions in higher education

	<u>GF \$ in millions</u>
Research Initiative	\$49.8
VCCS Middle College and Career Coaches	3.7
Expand programs at southside higher education centers	3.3
VIMSIM Program at VCCS	<u>0.4</u>
<b>Total for New Initiatives / Program Expansions</b>	<b>\$57.2</b>



# Research Initiative

- \$25.1 million for continuation of 2006 legislative research initiative
  - Initially, the Governor removes funding provided during the 2006 Session for research institutions as a base budget adjustment
  - Like amounts are then continued in FY 2009 only
  - Language requiring accountability and reporting on the use of the funds is removed
- \$21.3 million for new initiatives and program expansions
  - \$10.5 million to re-establish and expand the Commonwealth Technology Research Fund
  - \$7.5 million for Jefferson Labs to leverage \$310.0 million in federal funds
  - \$2.3 million for coastal research
    - Legislature provided one-time funding for this purpose in 2007 Session
  - \$1.0 million for Hampton University proton beam project
- Proposes an expansion of the Higher Education Equipment Trust Fund of \$15 million per year in equipment allocations
  - Requires \$3.4 million in debt service



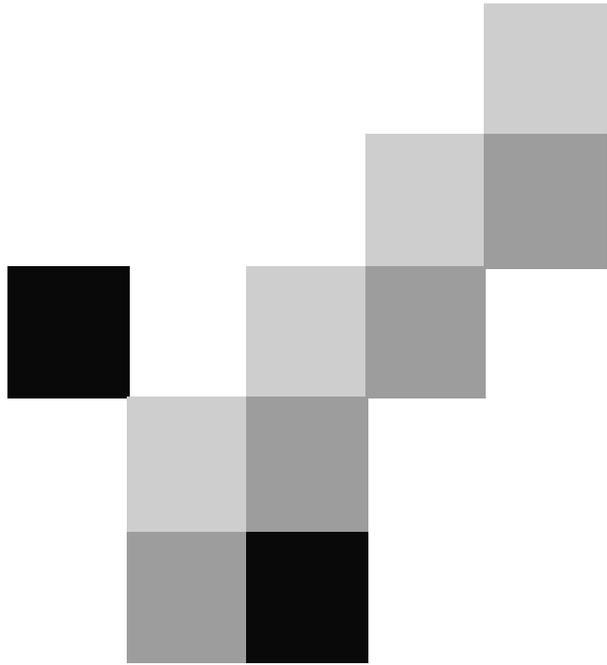
## HB 30: Other Higher Education Spending

- \$26.6 million GF in central accounts for proposed FY 2010 salary increase
- \$12.9 million GF in Treasury Board for FY 2010 lease payments on equipment purchased through the Higher Education Equipment Trust Fund (HEETF)
- \$3.6 million GF in central accounts for two-year college transfer grant program approved in FY 2007
  - First awards are scheduled for the fall 2009



# HB 30: Other Education Agencies

- New GF spending totaling \$3.0 million is proposed in HB 30
  - \$2.7 million for new staff and operating costs related to the museum expansion at the Virginia Museum of Fine Arts
  - \$0.2 million for operations and maintenance of new facilities coming on-line in the 2006-08 biennium
  - \$0.1 million for state aid to Fairfax public library



# Transportation



# HB 30: Transportation Overview

- Governor proposes capturing \$180.0 million of the \$500.0 million GF appropriated to transportation last year to balance FY 2009 on cash flow basis
  - \$180 million GF reverted from transportation in FY 2009
  - The budget appropriates a like amount for transportation in FY 2010



# HB 30: VDOT and DRPT

- Includes a series of amendments to reflect revised transportation revenue forecasts and the appropriation of funding authorized by HB 3202
  - In total, VDOT appropriations are increased by \$772.4 million NGF over the biennium – this includes the appropriation of insurance premiums as a NGF source
  - DRPT appropriations are increased by \$260.4 million NGF over the biennium
  - Similar amendments reflect revenue forecast changes in the caboose bill
- Reduces VDOT's maximum employment level by 323 FTE positions to reflect the agency's actual size
  - Positions are unfilled and are no longer necessary
- Proposes language authorizing DRPT to use up to 3 percent of a public transit and rail project allocation for project development, management and compliance activities
  - Contingent upon CTB approval on a project-by-project basis



# HB 30: Aviation and Ports

## ■ Virginia Port Authority

- Authorizes \$155.0 million in NGF bonds for Craney Island in the second year
  - Language includes appropriation of first debt service payment of \$11.3 million for this project
- Includes language authorizing the VPA to establish a short-term debt program to help with interim financing for capital projects
  - Outstanding debt is not to exceed \$200.0 million at any one time
  - Will allow elements of pooled projects to begin prior to the issuance of longer-term debt

## ■ Department of Aviation

- Transfers the program and funding responsibilities for the Civil Air Patrol from DEM to DOAV
- Appropriates \$322,000 NGF the first year and \$20,000 the second year for software to manage the agency's grant programs



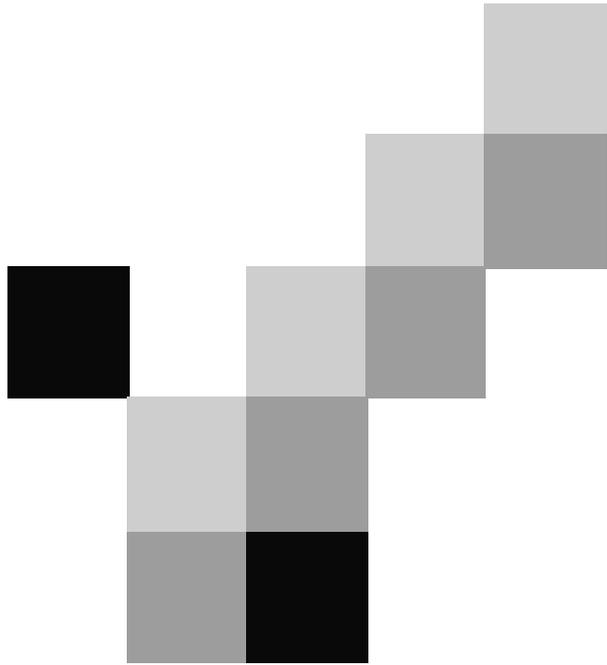
# HB 30: Department of Motor Vehicles

- The budget assumes a number of policy and fee changes to support the operations of DMV
  - In total, these actions would generate \$19.8 million annually
- Extends the \$1.00 “Jamestown 2007” registration fee imposed through language under DMV but reallocates the revenues as follows:
  - First \$1.0 million for administration of DMV (current law)
  - Of the next \$5.0 million, \$2.5 million to DMV for operating costs relating to enhanced driver’s license security requirements and \$2.5 million to Virginia Tourism Authority
  - Any amounts above \$6.0 million continue to go to the Land Conservation Fund
- DMV budget includes an appropriation of funding from an assumed \$10.00 increase in the driver’s license fee to support DMV’s operations
  - Driver’s license fee currently is \$20.00 for five-year license
  - Currently DMV costs are not recovered based on the increased credentialing and central issuance requirements relating to legal presence
  - Governor has stated companion legislation will be introduced to impose this fee increase, as well as legislation proposing a reduction in the frequency of vehicle inspections accompanied by a \$5.00 increase in the inspection fee
    - Driver’s license fee would be increased to \$30 (\$2.00 a year increase)
    - Vehicle inspection fee would increase from \$16 to \$21, but take place only biennially
- Also authorizes retention of portion of titling tax revenues to recover collection costs similar to charges paid to Department of Taxation



# HB 30: Department of Motor Vehicles

- Proposes merging the Motor Vehicle Dealer Board and the Towing and Recovery Operations Board into DMV
  - Not intended to generate savings but to streamline operations
  - Total of \$5.1 million NGF each year and 25 positions would be absorbed into DMV
- Creates a new sub-agency called “DMV Transfer Payments” to hold revenues transferred to other entities
  - This mirrors a sub-agency in the Department of Accounts for transfer payments
  - Would include the rental vehicle tax returned to localities, mobile home tax revenues, safety grants transferred to VDOT, etc.
  - Action described as attempt to more clearly separate agency budget and its role as a pass-through entity

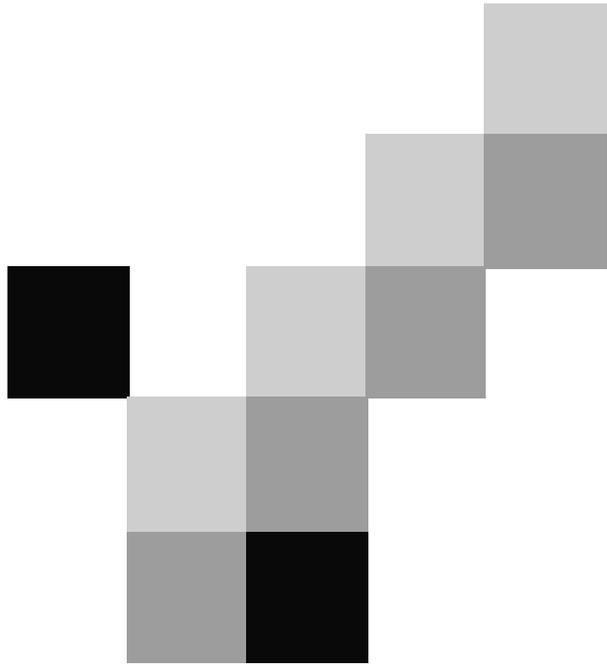


# **Agriculture and Forestry**

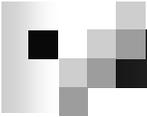


# HB 30: Agriculture and Forestry

- Total proposed new funding is \$11.1 million GF over biennium
  - No mandatory spending
- VDACS
  - \$3.0 million GF each year is included to support a state match for local purchase of development rights programs
    - In addition, \$700,00 each year is included for operations of the Farmland Preservation Office
  - Proposes to merge the Department of Charitable Gaming into VDACS Consumer Services Division
    - With the exclusion of the costs of the Agency Director, no savings were generated from this proposal
    - Transfer of \$2.6 million GF each year from DCG to VDACS reflected in budget
  - \$370,000 is provided to expand GF support for the weights and measures program
- No spending amendments are proposed for the Department of Forestry

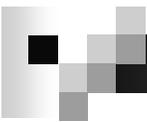


# Commerce and Trade



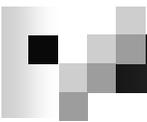
# HB 30: Secretary of Commerce and Trade

- Governor's budget includes \$15.1 million GF in FY 2009 for the Opportunity Fund
  - Identical to current biennium
  - Caboose bill proposes an additional \$1.5 million for FY 2008
- Virginia Investment Partnership (VIP) grant appropriations total \$1.3 million GF in FY 2009 and \$2.3 million GF in FY 2010
  - These commitments are set out in Code and based on the meeting of performance expectations prior to receiving funding
- Proposes \$200,000 GF each year for the Motion Picture Opportunity Fund



# HB 30: Secretary of Commerce and Trade

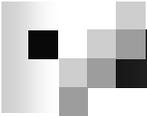
- Two separate appropriations proposed for the Semiconductor Manufacturing Grant Programs
- Code-mandated Phase 1 and II Semiconductor Grants total \$15.4 million in FY 2009 and \$8.8 million in FY 2010
  - Last payments to Micron and Qimonda under Phase 1 program made in FY 2009
  - Reduction from current biennium based on pay-out schedule
- Proposes to accelerate the payment of Phase II incentive grants to Qimonda (formerly Infineon)
  - Code stipulates that payments will be made in FY 2011 and FY 2012. VEDP has requested payments instead be made in the current biennium
  - Proposed accelerated payments are \$5.4 million in FY 2009 and \$8.4 million in FY 2010



# HB 30: Other Incentive Programs

## ■ SRI International

- Proposes \$5.0 million in FY 2009 and \$2.0 million in FY 2010 for SRI's location of a facility in the Harrisonburg area
  - Chapter 847 included \$12.0 million to SRI in FY 2008
  - A previous payment of \$3.0 million was made through the Commonwealth Technology Research Fund in FY 2007
- Legislation adopted by the 2007 Session commits a maximum of \$22.0 million to the firm through FY 2013
  - Payments are to be made based on the meeting of performance expectations
- These grants remain in Central Appropriations



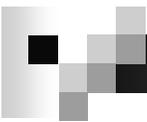
# Rolls Royce Incentive Package

- On November 20, the Governor announced a proposed incentive package totaling \$108 million to Rolls Royce relating to their location of a major jet engine facility in Prince George
  - \$90.3 million of this funding is outside of the existing business incentive program structure
  - Remaining \$18 million comes from existing appropriations for incentives programs (Enterprise Zone, GOF, TPOF, Workforce Services)
  - Payments would run from FY 2009 to FY 2028
- Major components of the incentive package include:
  - \$35 m. of out-biennium performance grant payments (beginning in FY 2014)
  - \$40 m. in higher education grant funds (beginning in FY 2010)
  - \$5 m. in payments related to supplier performance grants (no earlier than 2015)
  - \$6 m. from the Governor's Opportunity Fund (committed in FY 2008)
  - \$10 m. from the Transportation Opportunity Fund (previously appropriated funds)
  - \$8.8 m. in training funds - \$9,000 per job for specialized training
- Appropriations of \$1.2 million in FY 2009 and \$9.4 million in FY 2010 are included in Central Appropriations
- Stand-alone legislation will be introduced setting out the parameters of the incentive package



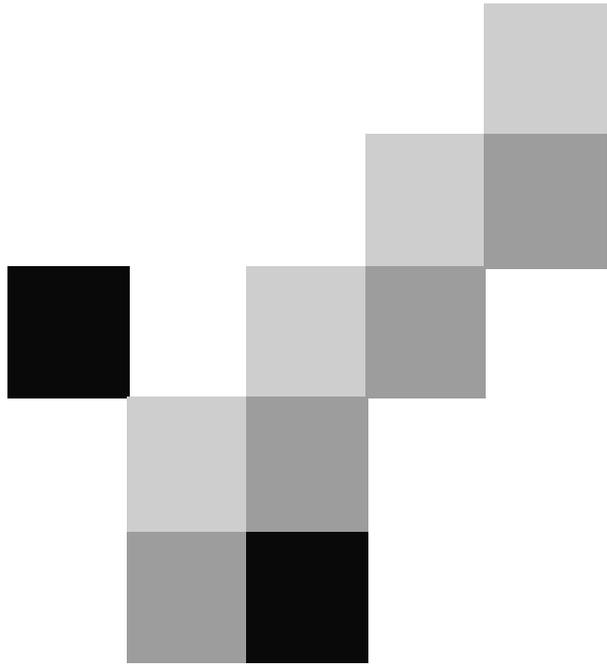
# HB 30: Commerce and Trade Agencies

- Department of Business Assistance
  - Increase of \$2.0 million GF provided in second year for the Jobs Investment Grant program
- Department of Housing and Community Development
  - \$922k provided for Fort Monroe Federal Area Development Authority
  - \$500k each year for Rural Broadband Development
  - \$200k provided for mortgage counseling assistance (additional \$750,000 provided in caboose bill)
  - \$150k provided for locally owned dam in Manassas
- Department of Labor and Industry
  - Propose \$245,593 to fund ARMICs directive
  - Include \$189,776 for salary increase for NoVa workers to address high staff turnover
- Department of Mines, Minerals and Energy
  - Language authorizes the imposition of water permitting fees for mines totaling \$1.2 million over the biennium
  - \$811,639 and 3 positions proposed for the Virginia Energy Management Program

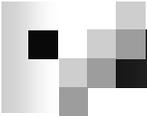


# HB 30: Commerce and Trade Agencies

- Virginia Employment Commission
  - Proposes the transfer of all Workforce Investment Act and Workforce Innovation grants from the VEC to VCCS
    - Shifts a total of \$97.7 million NGF over the biennium
    - Also transfers 38 positions
- Virginia Economic Development Partnership
  - Provides \$500,000 in state matching grants to the Virginia International Trade Alliance (VITAL)
  - Provides \$200,000 to market the Commonwealth in India and China
- Virginia Tourism Authority
  - Proposes \$2.5 million each year from the continuation and redirection of the “Jamestown 2007” \$1.00 vehicle registration fee to fund tourism promotion
  - Eliminates all pass-through grants – total of \$1.5 million over the biennium (Tredegar, See Virginia First, Coalfields Tourism, etc.)
  - Also eliminates \$750,000 for the micro-tourism grants
  - Provides \$200,000 for the Daniel Boone Visitors Center



# Public Safety



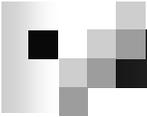
# Department of Corrections

- HB 30 includes an additional \$29.3 million for the Department of Corrections in the 2008-2010 biennium
- Additional general fund spending includes:
  - \$11.9 million per year to fund the increased costs of inmate medical care
  - \$1.5 million in additional funding for the state's share of the construction costs for a wastewater treatment plant serving Augusta Correctional Center
  - \$406,541 per year for payments in lieu of taxes to localities with prisons
  - \$1.6 million in FY 2009 and \$2.1 million in FY 2010 to initiate three new offender reentry programs
    - Transitional probation and parole officers to assist offenders returning to the Tidewater Virginia and Richmond areas
    - Development of prison transition centers
    - Development of a technical probation violator center
- Significant language items:
  - Language permitting the next phase of PPEA negotiations for construction of a proposed Charlotte County correctional center to continue and defining the types of facilities to be included in the center's construction
  - Language permits probation and parole officers to directly refer technical probation violators to detention and diversion centers
  - Language proposes the creation of a therapeutic incarceration pilot project
    - Offenders sentenced to the therapeutic incarceration program could be released on probation by the court for successfully completing this 18 month program regardless of their initial sentence length



# Compensation Board

- HB 30 includes biennial increases of \$44.4 million for the Compensation Board in the 2008-2010 biennium
- Additional GF spending affecting sheriffs and jails includes:
  - \$14.9 million per year for additional jail per diem payments
  - \$3.5 million in FY 2009 and \$17.0 million in FY 2010 to provide staffing for new jails
    - Staffing provided for Newport News Jail, Prince William-Manassas Jail, Rappahannock Regional Jail, Riverside Regional Jail, and Western Virginia Regional Jail
  - \$2.0 million in FY 2009 and \$4.0 million in FY 2010 to increase the reimbursements to localities for the costs of enhanced retirement benefits for sheriff's deputies and jail correctional officers
    - Additional funding not based on local retirement benefits as intended by the General Assembly
- HB 30 also assumes savings of \$2.8 million is generated from removing the overhead recovery exemption for jails housing out-of-state or federal inmates
  - Strategy affects Northern Neck Regional Jail, Piedmont Regional Jail, Central Virginia Regional Jail, and the Alexandria Jail



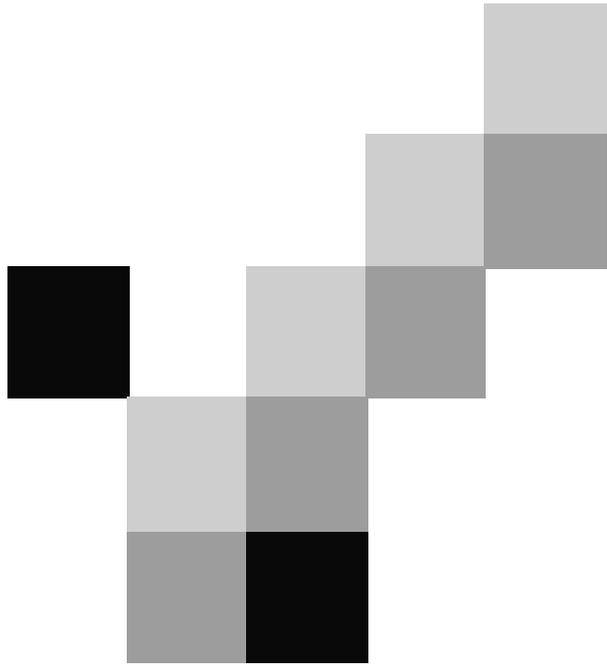
# Department of State Police

- HB 30 includes an additional \$4.9 million GF and \$23.9 million NGF for the Department of State Police in the 2008-2010 biennium
- Additional general fund spending includes:
  - \$2.7 million in FY 2009 to increase funding for gasoline purchases
    - Raises rate from \$1.19 per gallon to \$2.20 per gallon
  - \$1.4 million in FY 2009 and \$843,360 in FY 2010 to add 10 new troopers
    - Language also directs the agency to modify inspection processes for service stations to increase the number of troopers patrolling highways
- Additional nongeneral fund spending is primarily derived from the OxyContin settlement and includes:
  - \$3.9 million in FY 2009 and \$5.2 million in FY 2010 to replace or enhance existing computer systems
  - \$2.2 million in FY 2010 to purchase equipment for the STARS radio system not included in the original contract
  - \$1.0 million in FY 2009 to equip a computer forensics laboratory in VCU-provided space in the Biotechnology Research Park
  - \$8.5 million in FY 2009 to develop an intelligence management system for the State Police and local law enforcement agencies to improve information sharing
  - The Metro-Washington Airport Authority will provide State Police \$1.5 million annually for 16 positions to patrol roadways surrounding the Dulles area
- Language is provided permitting the agency to use existing debt service funding to purchase new Medivac-capable helicopters

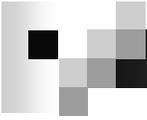


# Other Public Safety Issues

- Criminal Justice Services
  - HB 30 includes level funds “HB 599” funding for localities with police departments at FY 2008 level (\$205 million each year)
  - \$450,000 each year is included for Sexual Assault Crisis Centers
  - \$100,000 each year is included to augment Campus Security programs
- Department of Emergency Management
  - The Governor’s proposed budget transfers responsibility for the Emergency-911 services from VITA: \$49.8 million and 10 positions in FY 2009 and \$48.1 million in FY 2010
    - Funding provided by taxes included on cell phones
  - Language permits creation of time-limited salaried positions for disasters when authorized by the Governor – federal funds would support position costs
- Department of Veterans Services
  - The Governor’s introduced budget transfers the operations of the Virginia War Memorial from the Department of General Services to this agency
    - This transfer does not result in any budget savings

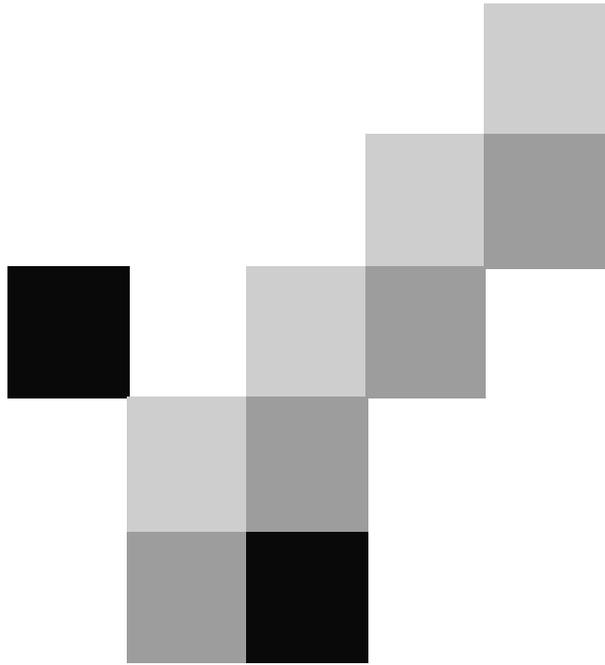


# Natural Resources



# Natural Resource Spending

- HB 30 includes increases of \$18.1 million GF for the Natural Resources agencies in the 2008-2010 biennium
- Additional general fund spending includes:
  - \$6.0 million for agricultural best management practices
    - Initiative also includes \$14 million in nongeneral funds
      - \$9.0 million from interest earned on funding for upgrading wastewater treatment plants
      - \$5.0 million appropriated from WQIF reserve fund
  - \$1.0 million each year for dam safety
  - \$1.5 million and 15 positions in FY 2010 for state park operations
  - \$3.0 million each year for combined sewer overflow projects
    - Funding is to be divided evenly between Richmond and Lynchburg
  - \$1.2 million provided to match federal funds available for Virginia Water Facilities Revolving Fund
    - General fund dollars will result in \$2.2 million in FY 2009 and \$1.4 million in federal funds



# Compensation and Retirement



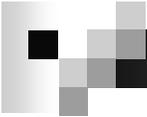
# Employee Salary Adjustments

- HB 30 includes \$254.6 million for second year salary adjustments. These would be effective July 1, 2009
  - This funds 3.0% increases for state employees, state-supported local employees and college faculty
    - Cost of \$122.2 million in FY 2010
  - Incentive funding is provided for 3.5% increases for teachers and 3.0% for all other SOQ positions
    - Cost of \$132.4 million in FY 2010



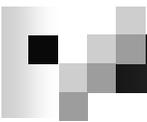
# VRS Rates

- VRS rates based on same policy assumptions in Chapter 847
  - Rates assume:
    - 24 year amortization
    - 8% rate of return on investments
    - 3% rate of inflation for COLAs
- Increased cost of state employees retirement: \$4.4 million in FY 2009 and \$4.6 million in FY 2010
- Other VRS Programs for State Employees: Savings of \$2.9 million in FY 2009 and \$3.0 million in FY 2010
- Teachers: Savings of \$29.3 million GF in FY 2009 and \$29.5 million in FY 2010



# VRS Rates

<u>Program</u>	<u>2008 Rate</u>	<u>New Rate</u>
State Employee Retirement	6.15%	6.68%
SPORS	20.76%	21.48%
VaLORS	15.86%	15.02%
JRS	38.01%	35.74%
Teachers Retirement	10.30%	9.35%
State Employee Health Ins. Credit	1.20%	1.22%
Teacher/CO Health Ins. Credit	1.16%	1.12%
VSDP	2.00%	1.96%
State Employee Life Insurance	1.00%	0.89%
Teachers/CO Life Insurance	0.40%	0.36%



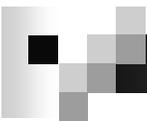
# Retirement Costs - State Supported Local Employees

- FY 2007 Retirement Contribution Rate Adjustment: Budget includes \$12.3 million in FY 2008, \$7.5 million in FY 2009, and \$7.5 million in FY 2010 to fund the impact of the FY 2007 increase in the retirement contribution for constitutional officers
  - 2006-2008 biennium budget for Compensation Board did not reflect increased costs from changes in VRS contribution rates effective FY 2007
  - Resulted in a shortfall in FY 2007
  - \$4.8 million in FY 2008 is needed to backfill appropriation which was transferred to FY 2007 to cover shortfall
- Updated Contribution Rates: Budget includes \$1.6 million in FY 2009 and \$1.6 million in FY 2010 to fund the impact of the VRS retirement rates which are proposed for the 2008-2010 biennium



# Reimbursements to Localities for LEOS

- LEOS for Deputy Sheriffs: Budget includes \$2.0 million in FY 2009 and \$4.0 million in FY 2010 to reimburse localities and regional jails for providing expanded retirement benefits to sheriffs deputies under LEOS
  - Senate Bill 1166 of the 2007 session mandated that localities provide enhanced retirement benefits to their sheriffs deputies through LEOS no later than July 1, 2008
  - These reimbursements are in addition to the current formula for reimbursement of retirement costs to localities for constitutional officers
  - Language states the Compensation Board shall allocate these additional reimbursements based on the local fiscal stress index



# Other Compensation and Retirement

- State Employee Health Insurance
  - \$19.1 million in FY 2009
  - \$14.8 million in FY 2010
  - Increase lower than inflation rate largely due to current excess balances in the fund (estimated at \$65 million)
  - This will result in significant premium increases in 2011
  - Second year of OPEB phase-in is funded for FY 2009, will be revisited prior to FY 2010

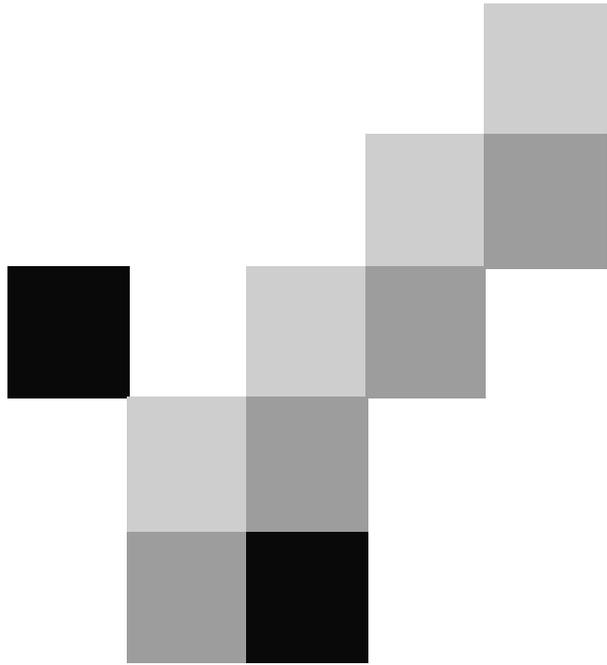
# Inflation Adjustment to Health Insurance

<u>Policy</u>	<u>FY 2009</u>	<u>FY 2010</u>
Annual Inflation Trend	8.00%	8.00%
Reduce Excess Balance in HIF	-3.98%	-3.98%
Savings from Future Moms Program	-0.03%	-0.03%
Second Year of OPEB Phase In	<u>1.29%</u>	<u>0.0%</u>
Proposed Premium Change	5.28%	3.99%

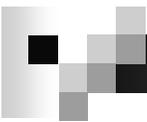


# Line of Duty

- Line of Duty: Budget includes \$1.3 million in FY 2009 and \$2.6 million GF in FY 2010 to fund the Line of Duty benefits on an actuarial basis



# General Government



# Revenue Stabilization Fund

- Chapter 847 assumed a deposit into the Rainy Day Fund of \$184.3 million in FY 2008
  - Because revenues fell short of projections in FY 2007, the deposit is reduced to \$114.8 million – a reduction of \$69.5 million
- Chapter 847 also assumed a transfer of \$120.4 million out of the Rainy Day Fund to the General Fund based on the fund exceeding the constitutionally-established cap
  - The revised estimated transfer is \$59.4 million, or \$61.0 million below the estimate in Chapter 847
  - In combination, these changes result in a net savings of \$8.5 million GF in FY 2008
- HB 30 includes a \$21.3 million deposit into the Rainy Day Fund in FY 2009 based on FY 2007 revenues
  - Based on the Auditor of Public Accounts annual certification
  - Based on current FY 2008 revenue forecast, Auditor projects no deposit will be required in FY 2010
- Introduced budget assumes a year-end balance in the fund of \$1.1 billion after the proposed withdrawal in the caboose bill
  - At the end of the 2008-2010 biennium the balance would be \$1.2 billion



# Judicial Branch

- **Criminal Fund:**

- Includes \$15.0 million in caboose bill and \$10.0 million each year in next biennium to fund increased costs of indigent defense

- **Court Appointed Waiver program:**

- Includes \$1.0 million in both FY 2009 and 2010 for additional compensation for court appointed counsel representing juveniles

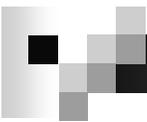
- **Magistrates:**

- Includes \$3.6 million and 35 positions in FY 2009 for the magistrate system, and \$4.3 million and 11 additional positions (46 total) in FY 2010



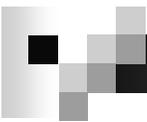
# Technology

- Remove savings assumption - Budget includes \$4.9 million in all three years to remove the savings assumption included in VITA's appropriation for FY 2008 in Chapter 847
- VITA rate changes – Includes in Central Appropriations \$4.7 million in FY 2008, \$9.5 million in FY 2009 and \$9.5 million in FY 2010 to fund increased cost to agencies for VITA rate changes
  - The \$9.5 million cost for rate changes is partially offset by savings reductions in some specific agencies
    - Taxation - savings of \$658,802 GF each year
    - DOC - savings of \$2.6 million GF each year
    - DMAS - savings \$181,936 GF each year
    - DRS – savings of \$3,324 GF each year
    - DOE – savings of \$309,710 GF each year
    - SCHEV – savings of \$13,069 GF each year



# General Government Savings

- The proposed budget for the Compensation Board includes several savings initiatives:
  - Continue Turnover and Vacancy Savings: Assumes \$1.3 million in savings in FY 2009 and \$1.3 million in savings in FY 2010 from continuing the requirement that clerks, treasurers, commissioners of revenue, and finance directors keep vacant positions open for 90 day prior to filling the positions
    - This initiative was included in the October budget reductions as a one time savings for FY 2008
  - Liability Insurance and Bond Premium Payments: Saves \$1.6 million each year by requiring the localities to fund 50 percent of the cost of liability insurance and bond premiums for the constitutional officers
  - Retiree Health Credit Premium Payments: Saves \$402,725 each year by requiring the localities to fund 50 percent of the cost of the retiree health credit premium for the constitutional officers
  - Operational Efficiencies: Assumes \$93,051 GF in savings in FY 2009 and \$344,121 GF in savings in FY 2010 from a decrease of 3 staff at the Compensation Board



# Other General Government Savings Initiatives

- Department of General Services: Saves \$199,333 GF in FY 2009 and \$427,362 GF in FY 2010 by closing the Division of Consolidated Laboratory Services' Abingdon Laboratory:
  - Eliminates 7 full-time and 1 part-time position
- Department of Accounts Transfer Payments: Saves \$8.0 million each year by limiting distribution payments of wine tax revenue and alcoholic beverage control profits to towns
  - Previously cities, counties and towns received these transfer payments
  - These funds are used to supplement mental health services



# General Government Transfers

- The proposed budget includes numerous proposals to transfer responsibilities and staff between agencies:
  - Transfers from VITA to DGS responsibility for Technology Procurement
    - 16 positions transferred, one position eliminated
    - Savings of \$143,000 NGF in FY 2009 and \$205,000 NGF in FY 2010)
  - Transfers from VITA to the Department of Emergency Management Services responsibility for the Emergency-911 program
    - Transfers 10 positions, no budgetary savings
  - Transfers oversight of the Virginia War Memorial from DGS to the Department of Veteran Services
    - 3 staff transferred, no budgetary savings