



VIRGINIA HOUSE  
APPROPRIATIONS  
COMMITTEE

CHAIRMAN BARRY D. KNIGHT

November 14, 2023

# 2024 SESSION REVENUE AND BUDGET OUTLOOK

Prepared By  
House Appropriations Committee Staff

# TOPICS FOR DISCUSSION

Review of 2023 Actions

FY 2024 Forecast Revisions

The FY 2024-2026 Revenue Outlook

2024 Session Budget Outlook

Major Budget Drivers

# CHAPTER I: HOW WE GOT THERE

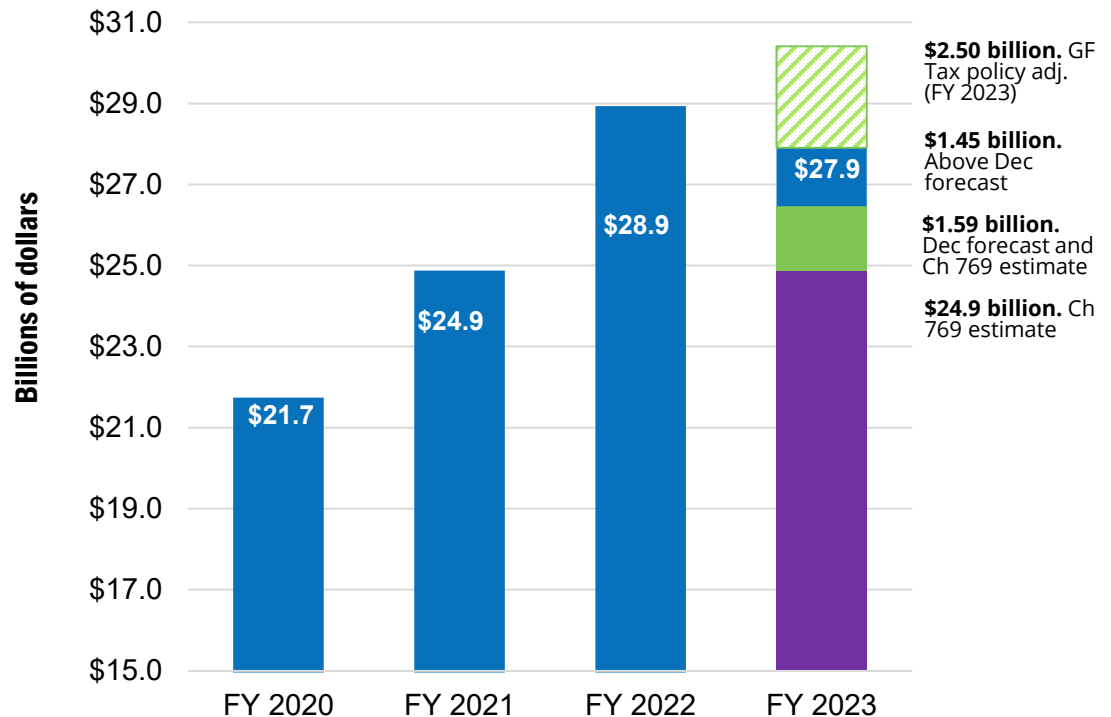
- At the close of the 2023 Regular Session, HB 1400 was replaced by the “skinny budget” or Chapter 769
- Chapter 2 (2022 Special Session I) as amended by Ch 769 – not HB 1400 - became the new starting point for actions incorporated into HB 6001 (Ch. 1)

Ch. 769 Actions (\$ in millions)	FY 2023	FY 2024	Biennial
Direct Aid Technical Changes and Hold Harmless for DOE Error	\$132.7	\$125.8	\$258.5
Mandatory Rainy Day Fund Deposit (based on FY 2022 revenue)	0.0	406.0	406.0
VRS One-Time Supplement	250.0	0.0	250.0
Capital Supplement for Cost Overruns	100.0	0.0	100.0
TANF General Fund Increase	9.2	5.1	15.3
<b>Total Spending</b>	<b>\$491.9</b>	<b>\$537.9</b>	<b>\$1,029.8</b>

# FY 2023 GF REVENUES EXCEEDED THE CH. 769 FORECAST BY \$3.0 B., YET ACTUAL REVENUES DECLINED BY \$1.0 B.

## FY 2023 GF Revenues

- \$3.0 billion higher than the Chapter 769 official estimate
- \$1.5 billion greater than the December forecast
- \$1.0 billion below FY 2022 actuals (-3.5%)
- \$1.5 billion above FY 2022 actuals (+5.1%), adjusted for policy actions
- This is in addition to the \$3.6 billion General Fund balance that was available for appropriation in the December budget
- Note: This chart excludes transfers



# FY 2023 GF RESOURCES DECLINED 3.4% BUT FINISHED \$3.1 B. ABOVE OFFICIAL FORECAST

## Summary of Fiscal Year 2023 Revenue Collections (\$ in millions)

Source	2022 Actuals	2023 Actuals	Change	Actual Growth	CH 769 Forecast
Withholding	15,340.3	15,957.2	616.9	4.0%	-0.1%
Nonwithholding	6,810.5	6,629.2	-181.3	-2.7%	-23.4%
Refunds	-1,740.5	-3,602.8	-1,862.3	107.0%	118.4%
<b>Net Individual</b>	<b>20,410.2</b>	<b>18,983.6</b>	<b>-1,426.6</b>	<b>-7.0%</b>	<b>-18.0%</b>
Sales	4,558.1	4,734.6	-176.4	3.9%	-1.3%
Corporate	1,978.7	2,031.1	52.4	2.6%	-12.2%
Recordation	654.1	430.6	-223.5	-34.2%	-9.2%
Insurance	426.8	450.9	24.1	5.6%	-4.9%
All Other Revenue	907.0	1,279.3	372.3	41.0%	0.3%
<b>Total Revenue</b>	<b>28,934.9</b>	<b>27,909.9</b>	<b>-1,024.9</b>	<b>-3.5%</b>	<b>-14.0%</b>
<b>Total Transfers</b>	814.3	815.6	1.3	0.2%	0.4%
<b>Total General Fund</b>	<b>29,749.2</b>	<b>28,725.5</b>	<b>-1,023.7</b>	<b>-3.4%</b>	<b>-14.0%</b>

# FY 2023 SURPLUS WAS FULLY UTILIZED IN HB 6001 (CH. 1)

Allocation	Amount (\$ in millions)
Mandated Revenue Reserve Fund Deposit (based on FY 2023 revenues)	\$289.6
WQIF (Water Quality Improvement Fund) – Part A based on revenue surplus	408.7
WQIF – Part B based on agency balances	104.7
Miscellaneous Other Assignments	107.7
Remainder Available for Spending (allocated in Chapter 1)	<u>2,128.1</u>
<b>Total Revenue Surplus</b>	<b>\$3,038.8</b>

# TAX POLICY ACTIONS IN CHAPTER 1

Ch 1 Tax Policy (\$ in millions)	FY 2024	FY 2025	FY 2026
Increase Standard Deduction TY 2024: \$8,500/\$17,000	-\$48.1	-\$101.7	-\$102.6
Remove Age Limit for Military Retirement Subtraction TY 2024	-37.8	-33.4	-34.7
Increase 163j Business Interest Deduction to 50%	-10.3	-22.6	-23.5
One-Time Tax Rebate: \$200/\$400	-906.8		
Re-estimate of 2022 Tax Policy Change Costs	-44.4	-47.0	-49.4
Set Aside for PTET Refunds	-1,000.0		
<b>Total: Tax Policy Actions</b>	<b>-\$2,047.4</b>	<b>-\$204.7</b>	<b>-\$210.2</b>

# FOCUS ON ONE-TIME SPENDING

- Understanding that revenue growth may be subsiding, there was a focus on funding one-time initiatives instead of building up ongoing programs to the extent possible
- Of the \$4.6 billion total, we estimate that about \$1.1 billion of resources went to ongoing programs
- \$3.5 billion was directed to non-recurring activities if you include the one-time rebate checks of \$200/\$400, and the \$1.0 billion reserved to meet the PTET refund timing issue
- Other major one-time funding is dedicated to:
  - Natural Resources – WQIF and related appropriations totaling \$644 million,
  - Commerce and Trade - \$200 million for site acquisition and development,
  - A one-time flexible funding pot of \$420 million for K-12, and;
  - Over \$200 million in capital outlay to address cost overruns and other renovation needs
- The unappropriated balance was \$7.3 million



# IMPACT OF THE DELAYED BUDGET

- Delaying adoption of a budget until after the close of FY 2023 had a number of impacts:
  - Crossing the fiscal year without adopting an updated official forecast resulted in an artificially high “surplus” which resulted in higher than anticipated deposits to the Revenue Reserve Fund and to the Water Quality Improvement Fund
  - Realized the Pass-Through-Entity-Tax (PTET) was not revenue neutral in FY 2023. Because filers did not apply for refunds in the same year, \$1.0 billion was set aside in HB 6001 for the estimated refunds for FY 2024
  - The excess revenue was available for expenditure in HB 6001 – typically those revenues would be available for your action in the 2024 Session
  - Even though the large surplus increased the base for many sources, Conferees decided to leave a “cushion” in the forecast because a large portion of revenue increase was the result of timing anomalies and there is continued concern the economy is slowing

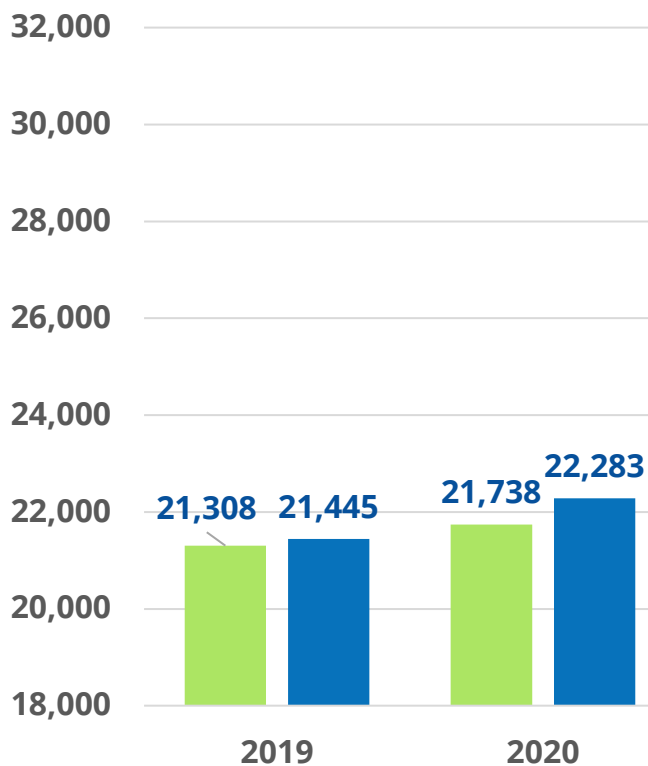


RECENT REVENUE AND  
SPENDING TRENDS  
IMPACT UPCOMING  
BIENNIA

# REVENUES AND SPENDING WERE BALANCED IN 18-20 BIENNIUM

■ GF Revenues  
■ GF Spending

## TOTAL GF Revenues and Spending (\$ in millions)



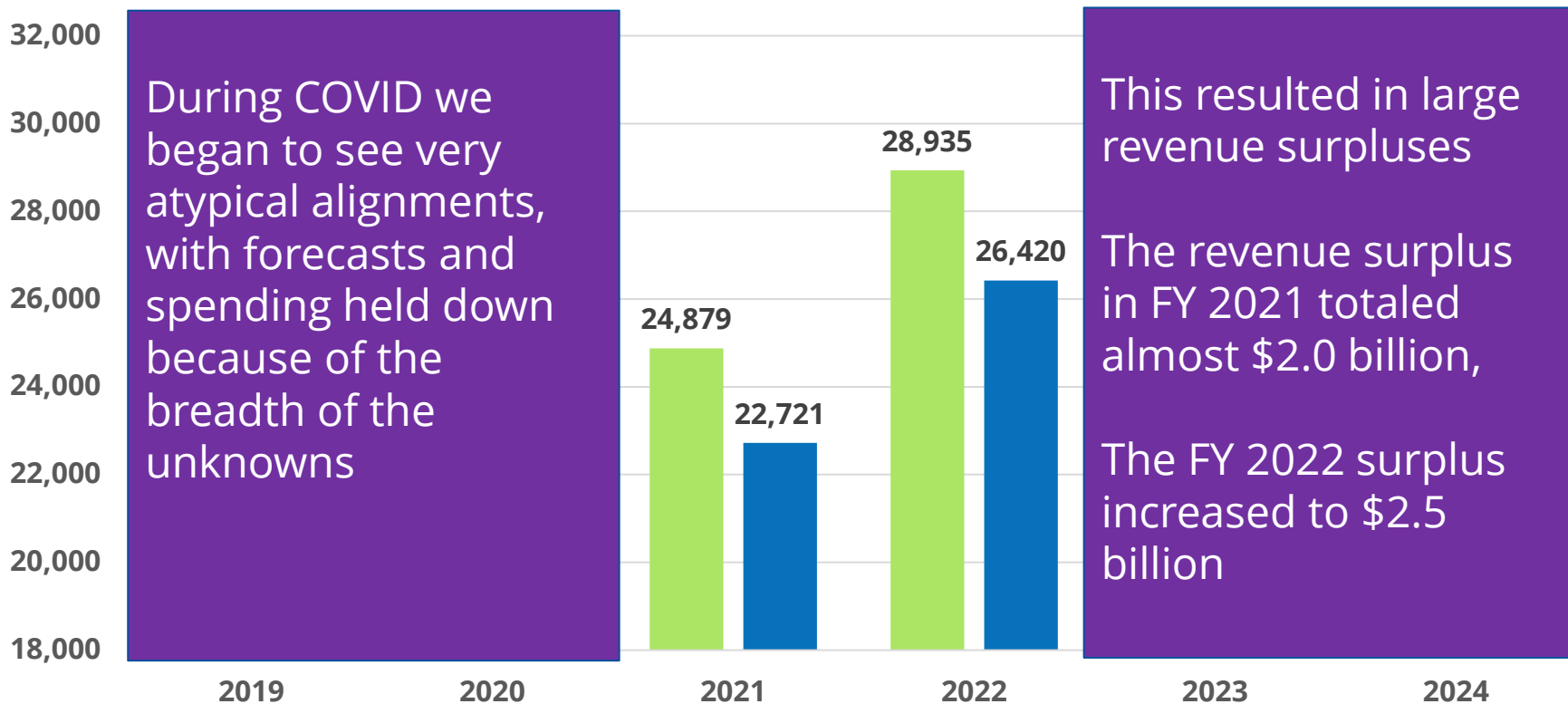
In the FY 2018-2020 biennium, we see a typical pattern where revenues fully support our biennial expenditures

Sometimes first year spending is held back to support second year costs because items like Medicaid cost increases tend to double in the second year, but overall, spending and resources are balanced

# REVENUE SURPLUSES PROVIDED CUSHION FOR 22-24 BIENNIUM

■ GF Revenues  
■ GF Spending

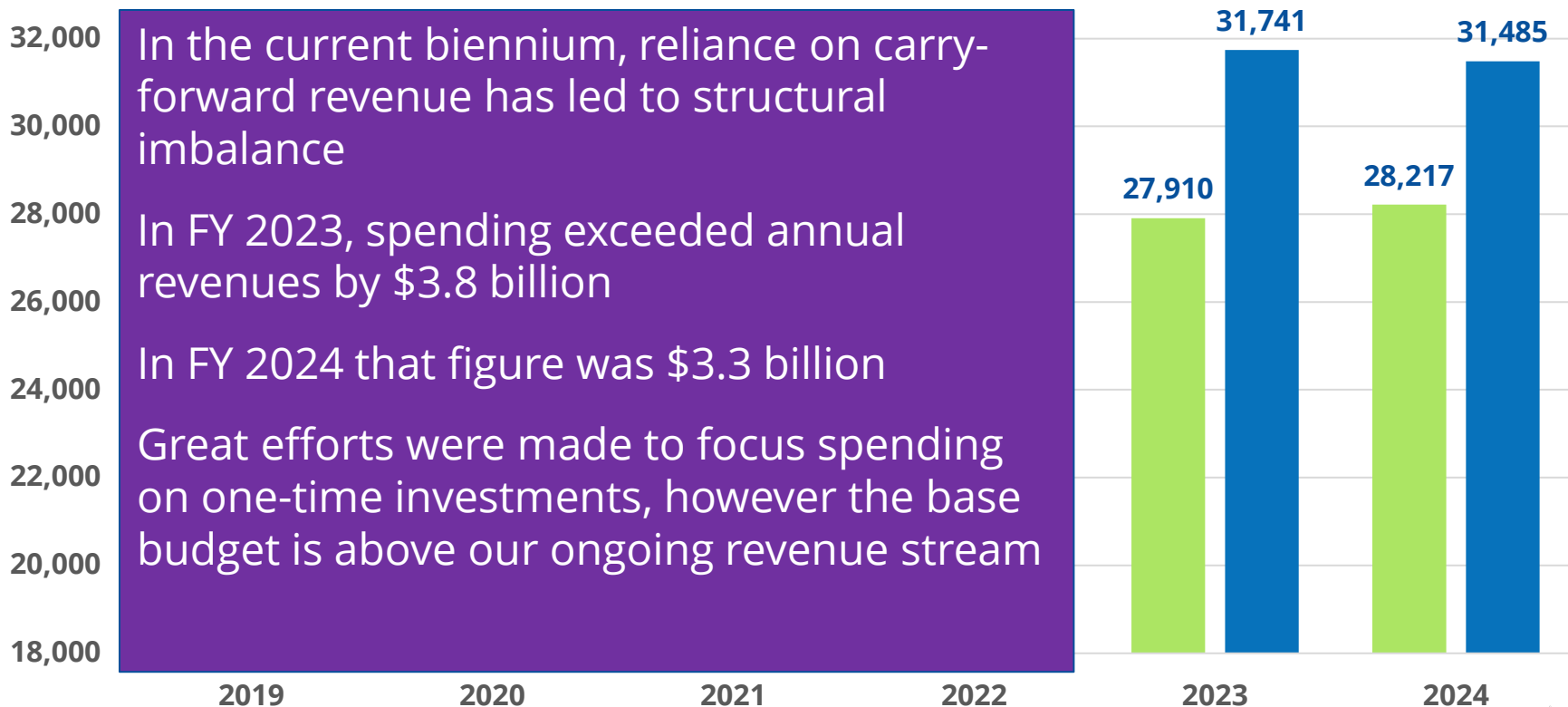
## TOTAL GF Revenues and Spending (\$ in millions)



# CURRENT BIENNIUM NOT STRUCTURALLY BALANCED

■ GF Revenues  
■ GF Spending

## TOTAL GF Revenues and Spending (\$ in millions)

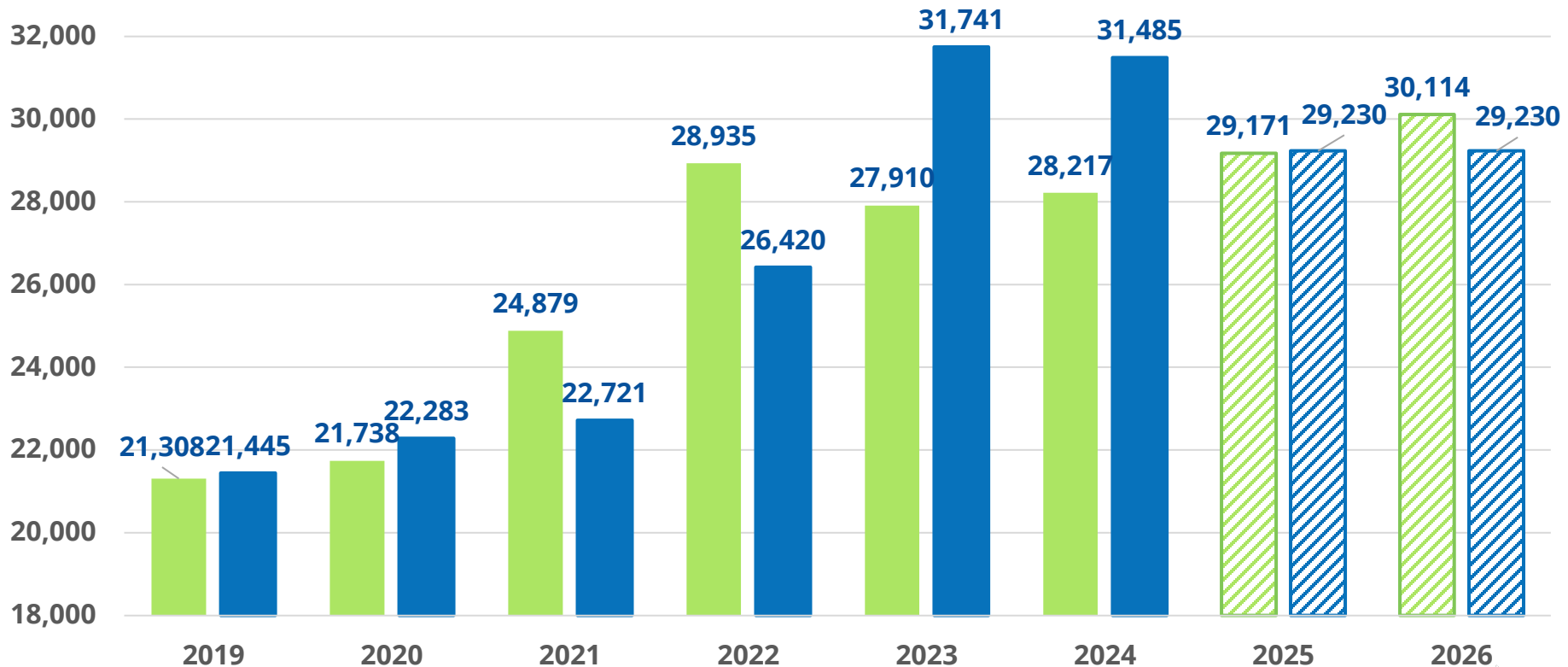


# CURRENT BIENNIUM NOT STRUCTURALLY BALANCED

■ GF Revenues  
■ GF Spending

## TOTAL GF Revenues and Spending (\$ in millions)

Green - Base Budget  
Blue - HAC Forecast



# 2023 REVENUE FORECASTING SCHEDULE

**August 7.** Governor's Advisory Council on Revenue Estimates (GACRE)

**October 11.** Joint Advisory Board of Economists (JABE) reviewed the economic outlook for the current and upcoming (FY 2024 – FY 2026) biennia

**November 21.** GACRE reviews economic and revenue outlook for current biennium (FY 2022 – FY 2024)

**December 20.** Governor releases forecast and proposed amendments to Chapter 1 (HB 29) and proposed budget for the FY 2024-2026 biennium

# FY 2024 PERFORMANCE THROUGH OCTOBER

- Adjusted to account for timing issues and tax policy changes, growth would be 5.6% above FY 2023
- Actual revenue collections during first 4 months of FY 2024 rose 12.1% above same period of FY 2023
  - Year-over-year excess revenues driven by high 2023 refunds because rebate checks were booked as refunds last year
- Looking at the economic underpinnings of the forecast exclusive of the anomalies related to tax policy changes, you see the following:
  - Still positive but slowing individual income tax collections because of slower job and wage growth
  - Substantial reductions in recordation taxes based on low refinancing activity, high interest rates and lack of inventory
  - Diminishing consumer spending – trends have normalized with greater portion of income going to untaxed services. FY 2024 is first full year without grocery tax



# REVENUE GROWTH SLOWING BUT ABOVE CONSERVATIVE FORECAST

Source (\$ in millions)	YTD Actuals	YTD % Growth	% Growth To Meet FC
Withholding	\$5,140.6	1.0%	-0.7%
Nonwithholding	1,291.0	6.5%	-29.3%
Refunds	<u>-738.8</u>	<u>-40.6%</u>	<u>-21.3%</u>
<b>Net Individual</b>	<b>5,692.8</b>	<b>12.5%</b>	<b>-6.7%</b>
Sales	1,589.4	0.3%	-6.7%
Corporate	611.6	24.4%	-6.6%
All Other	591.1	61.5%	27.0%
<b>Total Revenue</b>	<b>\$8,484.9</b>	<b>12.1%</b>	<b>-5.5%</b>

- FY 2023 surplus results in much higher revenue base heading into FY 2024
- Negative 5.5% growth is all that is required to meet current FY 2024 revenue forecast

# ESTIMATED FY 2024-2026 FORECAST

(\$ in millions)	Actual	HAC Estimate		
	FY 2023	FY 2024	FY 2025	FY 2026
Net Individual	\$18,983.6	\$18,901.3	\$19,095.3	\$19,885.4
Sales	4,734.5	4,793.0	4,888.9	5,060.0
Corporate	2,031.1	2,147.9	2,104.9	2,210.2
All Other Sources	2,160.7	2,294.7	2,305.5	2,181.6
General Fund Revenues	27,909.9	28,347.2	28,394.6	29,994.3
<b>Total GF Revenue Growth</b>	<b>-3.5%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>3.3%</b>
Transfers	815.6	-130.0	776.8	776.8
<b>Total GF Resources</b>	<b>\$28,725.5</b>	<b>\$28,006.9</b>	<b>\$29,171.4</b>	<b>\$30,114.0</b>
<b>Additional GF Resources Available</b>		<b>\$1,767.6</b>	<b>\$1,164.5</b>	<b>\$2,107.1</b>



# FY 2024-2026 BUDGET ADJUSTMENTS

# BUDGET OUTLOOK: FY 2024-2026 BIENNIUM

**What is our likely carryforward/beginning balance?**

**What is our base budget?**

**What are the known budget drivers?**

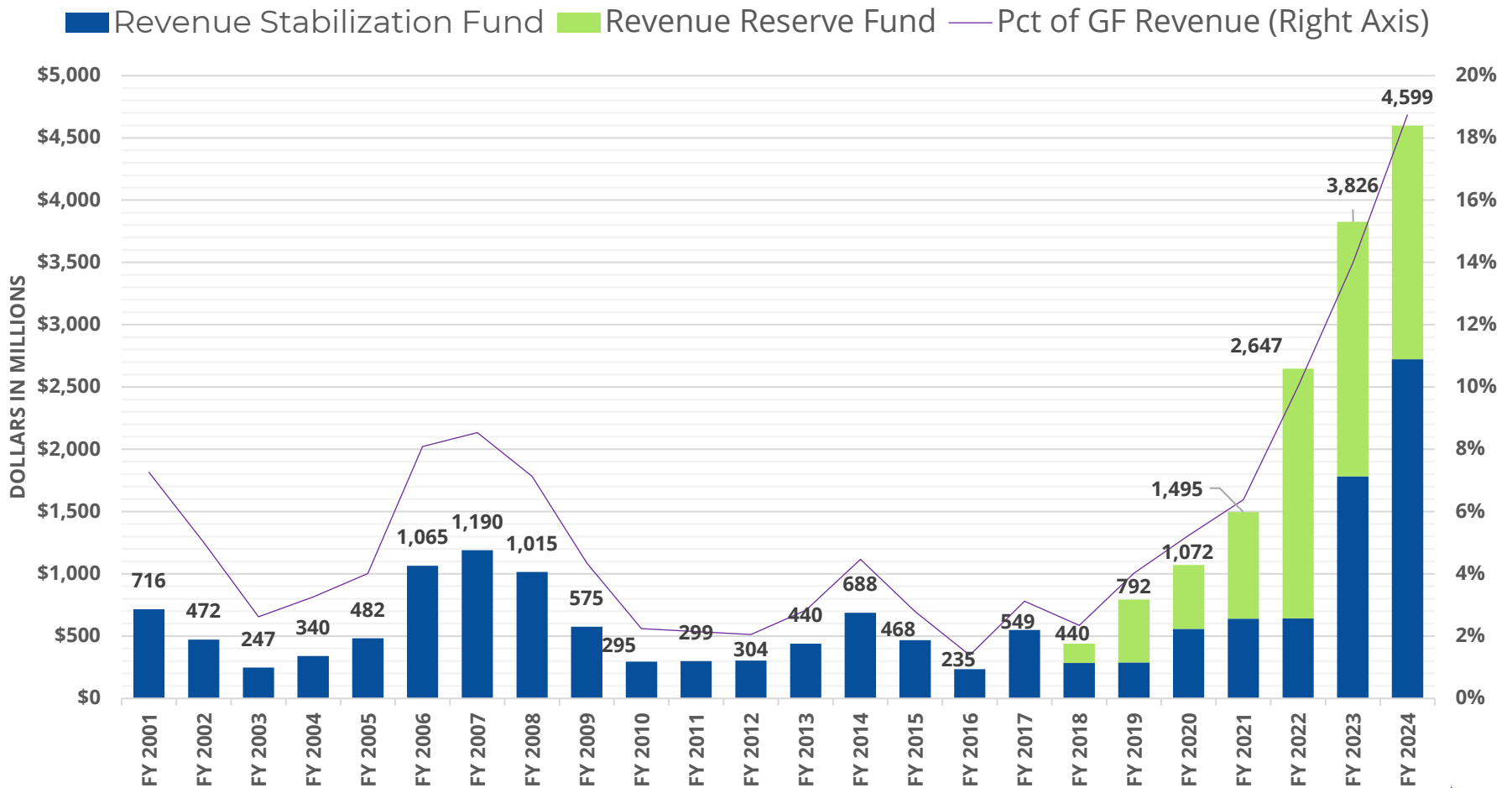
**Can we utilize carryforward balances while maintaining structural integrity?**

**What other policy priorities need to be considered?**

# FY 2023 GF DISCRETIONARY BALANCES

- The year-end close reports for FY 2023 indicated there was a total of \$952.5 million of discretionary GF balances
- Often the Governor allows an agency to retain these amounts – a portion simply reflects amounts spent but not yet remitted, other shares reflect unencumbered resources
- Assuming the Governor reverts about 55% of these amounts to the GF, this will provide about \$520 million for new spending
- In addition to the discretionary balances, there was \$645 million in mandatory GF reappropriations
  - The Governor may determine that he wants to revert a portion of these as well – we'll have to wait until Dec 20 to see

# STATUS OF VA'S RESERVE FUNDS



# STATUS OF RESERVE FUNDS

- The Constitution limits deposits into the Revenue Stabilization Fund (Rainy Day Fund) to 15% the average of the prior 3 years GF revenues
  - The Code limits combined deposits to the Rainy Day Fund and Revenue Reserve Fund to 15% of those same amounts
- For the current biennium, budget language has overridden the Code language and allowed the combined fund balances to reach 20% of GF revenues
- Because of the large surpluses we have experienced in the last few years, current balances in the Fund, and deposits appropriated yet not deposited until the end of FY 2024, balances will be almost 19%
- Governor is likely to revert these excess amounts to the GF for spending in the new biennial budget
- The FY 2023 year-end balances in the combined funds totaled \$3.8 billion and additional appropriated deposits in FY 2024 total \$695.5 million
- Can anticipate about \$738 million of available funding for expenditure if the budget language is removed and Code/Constitution caps are adhered to

# ESTIMATED FY 2024 RESOURCE ADJUSTMENTS TOTAL \$3.2 B.

- In addition to revenue forecast adjustments, substantial resources have become available from FY 2023 discretionary balances and excess Reserve Funds
- The net available in the table below is an estimate of the starting balance in FY 2025 as part of the new biennial budget, exclusive of Caboose Bill actions

<b>FY 2024 Revenue Reforecast and Savings/Carry Forwards</b>	<b>\$ in millions</b>
Chapter 1 Unappropriated Balance	\$7.3
HAC Estimated Forecast Adjustment	1,767.6
FY 2023 Discretionary Balances – assume 55% of \$942.5 m. reverts	520.0
Assumed Reversion of Reserve Funds Above 15% Cap	737.8
Budgetary Savings (largely Medicaid)	140.9
<b>TOTAL</b>	<b>\$3,173.6</b>



# ADJUSTED BASE BUDGET FOR FY 2024-26 (GF DOLLARS IN MILLIONS)

	FY 2025	FY 2026
FY 2024 GF Appropriation (Chapter 1)	\$31,486.4	\$31,486.4
Remove One-Time Spending	-1,539.6	-1,539.6
Remove GF for Capital Outlay	-402.7	-402.7
Technical Adjustments	-611.4	-611.4
Annualize Partial Year Costs	379.1	379.1
<b>HAC Estimated Base Budget</b>	<b>\$29,311.8</b>	<b>\$29,311.8</b>

Note that base budget is \$1.3 billion above FY 2024 revenue forecast

# BASE BUDGET SUBSUMES ALL REVENUES IN 2024-26 BIENNIUM

(\$ in millions)	FY 2025	FY 2026	Biennial
<b>HAC Estimated Revenues</b>	<b>\$29,171.4</b>	<b>\$30,114.0</b>	<b>\$59,285.4</b>
HAC Estimated Base Budget	29,636.9	29,636.9	59,273.8
<b>Difference – Revenues and Base</b>	<b>-\$465.5</b>	<b>\$477.1</b>	<b>\$11.6</b>

# CABOOSE BILL BUDGET PRESSURES ARE LIMITED

- Because of the late adoption of the updated budget for the current fiscal year, spending pressures for FY 2024 should be minimal
- Agency caboose budget requests total \$88.9 million GF for FY 2024
  - Includes \$15 million downward adjustment in projected local and regional jail per diem costs
- Medicaid estimates savings of \$125.9 million in FY 2024 related to lower enrollments and additional efforts to maximize federal reimbursements
- Based on current revenue expectations for current year, unavoidable costs reflected in agency requests leave vast majority of available revenues to meet needs in the next biennium

# AGENCY BUDGET REQUESTS

- In August the Department of Planning and Budget sent out a directive to all agencies regarding the submission of budget requests, which were due September 29
- In total, agency non-technical general fund operating budget requests total \$2.0 billion in FY 2025 and \$1.7 billion in FY 2026
  - Of these amounts, agencies identified \$135.7 million the first year and \$192.2 million the second year as mandatory, emergency, or unavoidable spending
- These amounts exclude costs associated with the Medicaid Forecast and K-12 Rebenchmarking which are calculated later in the process
- Table on following slide includes totals by each Secretarial area

# AGENCY BUDGET REQUESTS TOTAL \$3.7 BILLION OVER BIENNIUM

Secretarial Area	FY 2025	2026	Biennial
Administration	\$25.0	\$30.0	\$59.6
Ag and Forestry	11.1	9.7	20.8
Commerce/Trade	280.3	274.7	554.9
K-12 Education	105.0	60.0	165.0
Higher and Other Education	758.2	636.4	1,394.6
Executive Offices	3.4	3.4	6.7
Health & Human Resources	312.0	356.7	668.7
Judicial	3.2	5.4	8.6
Labor	14.3	14.3	28.6
Natural Resources	344.3	87.5	431.8
Public Safety	119.4	128.7	248.1
Transportation	6.8	6.8	13.6
Veterans and Defense	41.5	14.7	56.2

# IDENTIFIED MANDATORY SPENDING

General Fund \$	FY 2025	FY 2026
<b>Finance</b>		
TRS - Increased Debt Service Costs	30,000,000	65,000,000
TRS - Property and Gen. Liability Insurance	15,000,000	16,000,000
<b>Commerce and Trade</b>		
EDIP Grant Program Adjustments	-4,962,857	-18,065,107
<b>Elementary and Secondary Education</b>		
Direct Aid – Est. 2024 Rebenchmarking costs	662,000,000	677,000,000
Reading Specialist positions per 2023 leg.	33,000,000	33,000,000
<b>Health and Human Services</b>		
DMAS - Medicaid Forecast	173,900,000	540,900,000
DMAS - Children's Health Insurance	8,557,237	22,717,459
DSS - Child Welfare Forecast	4,000,000	4,000,000
Comprehensive Services Act	19,000,000	19,000,000
VDH – Relocate Office of Vital Records	1,000,000	0
DSS – Fed'l Required SNAP Benefits Admin.	1,000,000	1,000,000
<b>Central Accounts</b>		
Increases for Central Services	2,000,000	2,000,000
<b>Grand Total, Mandatory Items</b>	<b>944,494,380</b>	<b>1,362,552,352</b>

# COMPARISON OF RESOURCES TO BUDGET DRIVERS

\$ in millions	FY 2025	FY 2026	Biennium
HAC Estimate – Revenue Increase	\$1,164.5	\$2,107.1	\$3,271.6
Budget Savings/Carryforward (could be FY 24 or 25 depending on Caboose)	3,173.6		3,173.6
<b>Total Additional Resources</b>	<b>4,338.1</b>	<b>2,107.1</b>	<b>6,445.2</b>
<b>Revenues Remaining After Base</b>	<b>2,708.1</b>	<b>477.1</b>	<b>3,185.2</b>
Mandatory Spending	944.5	1,362.6	2,307.1
<b>Resources Remaining</b>	<b>1,763.6</b>	<b>-885.5</b>	<b>878.1</b>
High Priority Spending	701.8	775.6	1,477.4

# K-12 REBENCHMARKING



# 2022-24 BIENNIUM HIGHLIGHTS

**Over the biennium, ongoing annual public education funding increased by almost \$1.3 billion**

- Represents a 17.6% increase above the FY 2022 base (\$7,311.6 million)
- Of the \$1.3 billion increase:
  - 43.3% attributed to 5% and 7% salary increases
  - 27.7% attributed to funding additional SOQ positions

Ongoing Public Education Funding Actions during the 2022-24 biennium (\$ in millions GF)	FY 24 Impact
5% and 7% Salary Increases	\$558.8
SOQ: Additional Support Positions	314.6
Rebenchmarking & Technical (incl. Lottery offsets)	91.0
Recapitalize Literary Fund	83.0
Maintain VRS Rates at 2020-22 Levels	74.8
Increase Maximum At-Risk Add-On Rate to 36%	74.2
Early Childhood Expansion	40.2
SOQ: Add Grade K-3 Reading Specialists	31.8
Other Ongoing Programs	11.0
SOQ: Provide 1.0 FTE principal per school	10.3
<b>TOTAL NEW ONGOING SPENDING</b>	<b>\$1,289.7</b>

# 2022-24 BIENNIUM HIGHLIGHTS

**In addition, almost \$1.7 billion was provided for one-time investments in K-12**

**About half of these one-time funds may be carried forward to future fiscal years**

- Can assist school divisions as federal COVID relief funds expire

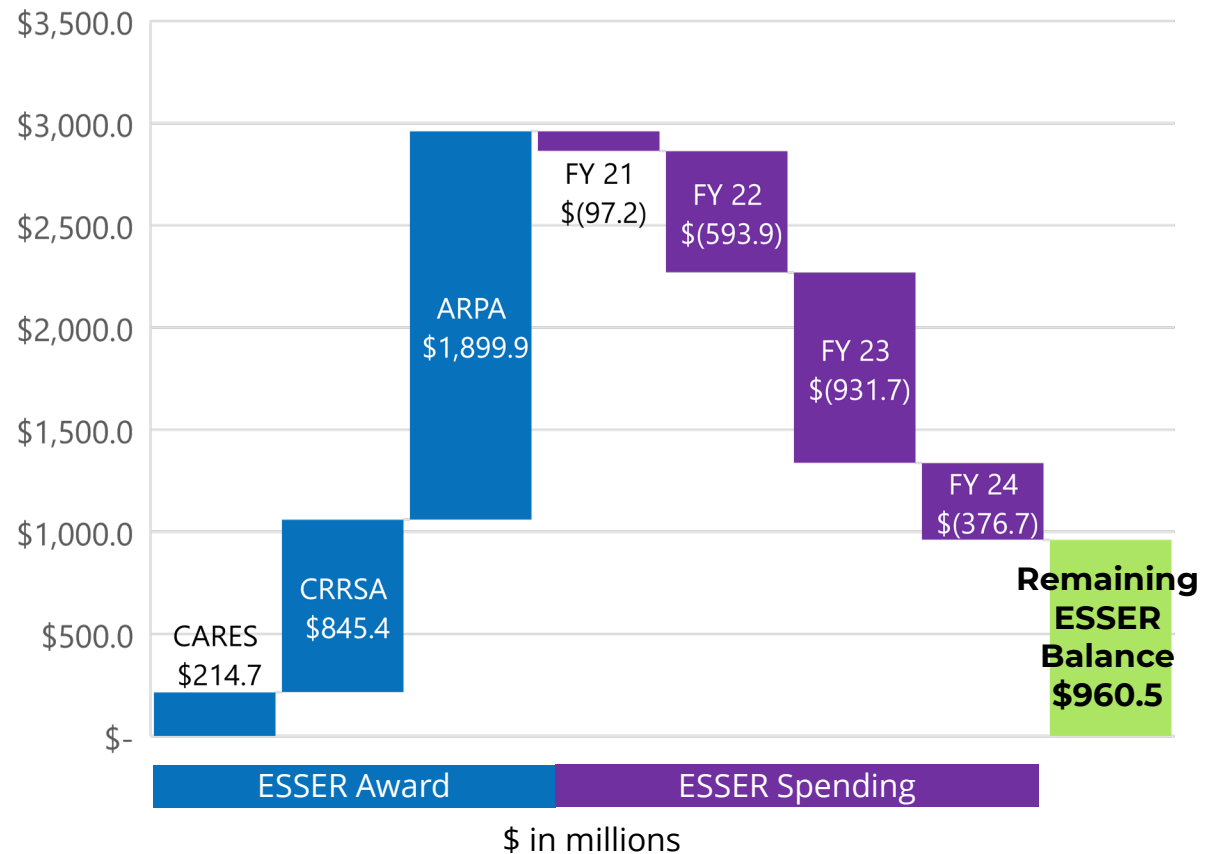
<b>One-Time Public Education Funding Actions during the 2022-24 biennium</b> (\$ in millions GF)	<b>Biennial</b>
<b>Flexible Funding Supplement</b> FY 2024   divisions permitted to carry funds forward	\$418.3
<b>Formula-Based School Construction Grants</b> FY 2023   divisions permitted to carry funds forward	400.0
<b>Targeted School Construction Grants</b> FY 2023   total of \$450.0 million, as \$50.0 million was provided from the Literary Fund   gaming revenues will support ongoing costs	400.0
<b>Rebenchmarking Hold Harmless</b> FY 2023 & FY 2024   recognized 2022-24 rebenchmarking costs were low due to COVID-19 closures	354.5
<b>College Partnership Laboratory School Fund</b> FY 2023   funds planning, startup and operating costs	100.0
<b>School Security Grants</b> FY 2024   total of \$20.0 million, as \$8.0 million provided from ARPA funds	12.0
<b>TOTAL ONE-TIME SPENDING</b>	<b>\$1,684.8</b>

# 2022-24 BIENNIUM HIGHLIGHTS

**Since 2020, \$2.96 billion in Federal ESSER funds have been provided to divisions for pandemic relief**

- At the beginning of FY 2023, \$2.27 billion remained available
- During the biennium, \$1.31 billion has been reimbursed, leaving \$960.5 million in available balances
- Balances must be obligated by September 30, 2024 and reimbursed by December 31, 2024

## ESSER Balances

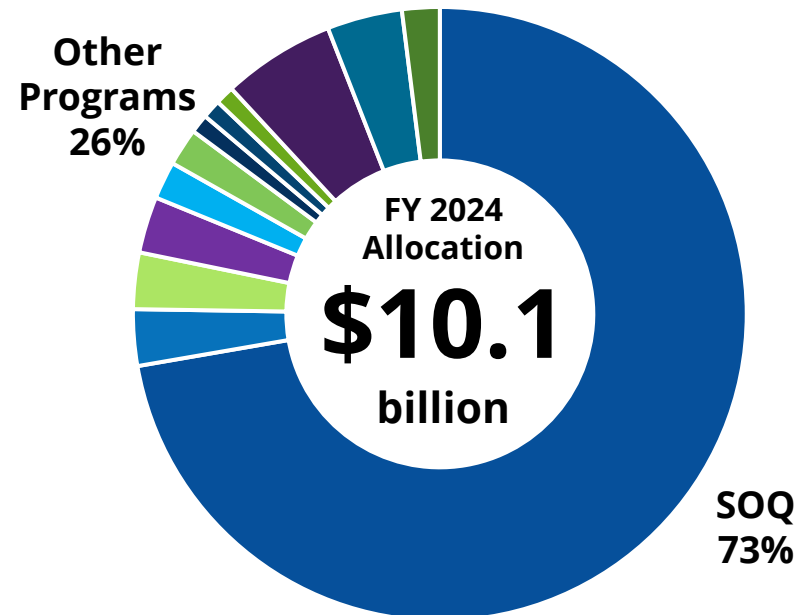


# 2024-2026 REBENCHMARKING

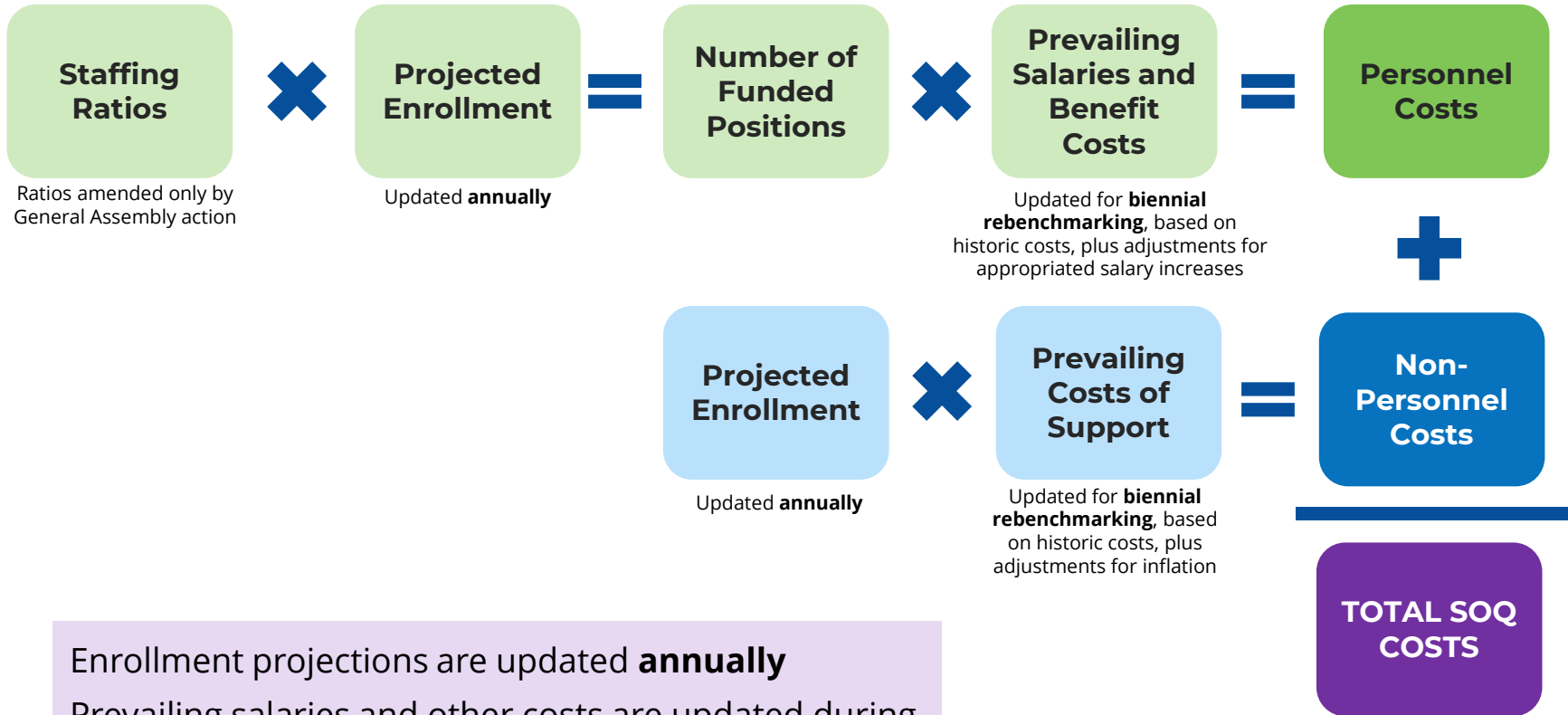
**Rebenchmarking** updates the projected costs for public education for the upcoming biennium, using FY 2022 salaries and support costs as reported by school divisions as the base:

- The salaries are then adjusted to account for 5% and 7% increases provided in FY 2023 and FY 2024
- Support costs are adjusted to account for inflation occurring during FY 2023 and FY 2024

While the SOQ accounts for most K-12 funding, all programs are updated during rebenchmarking



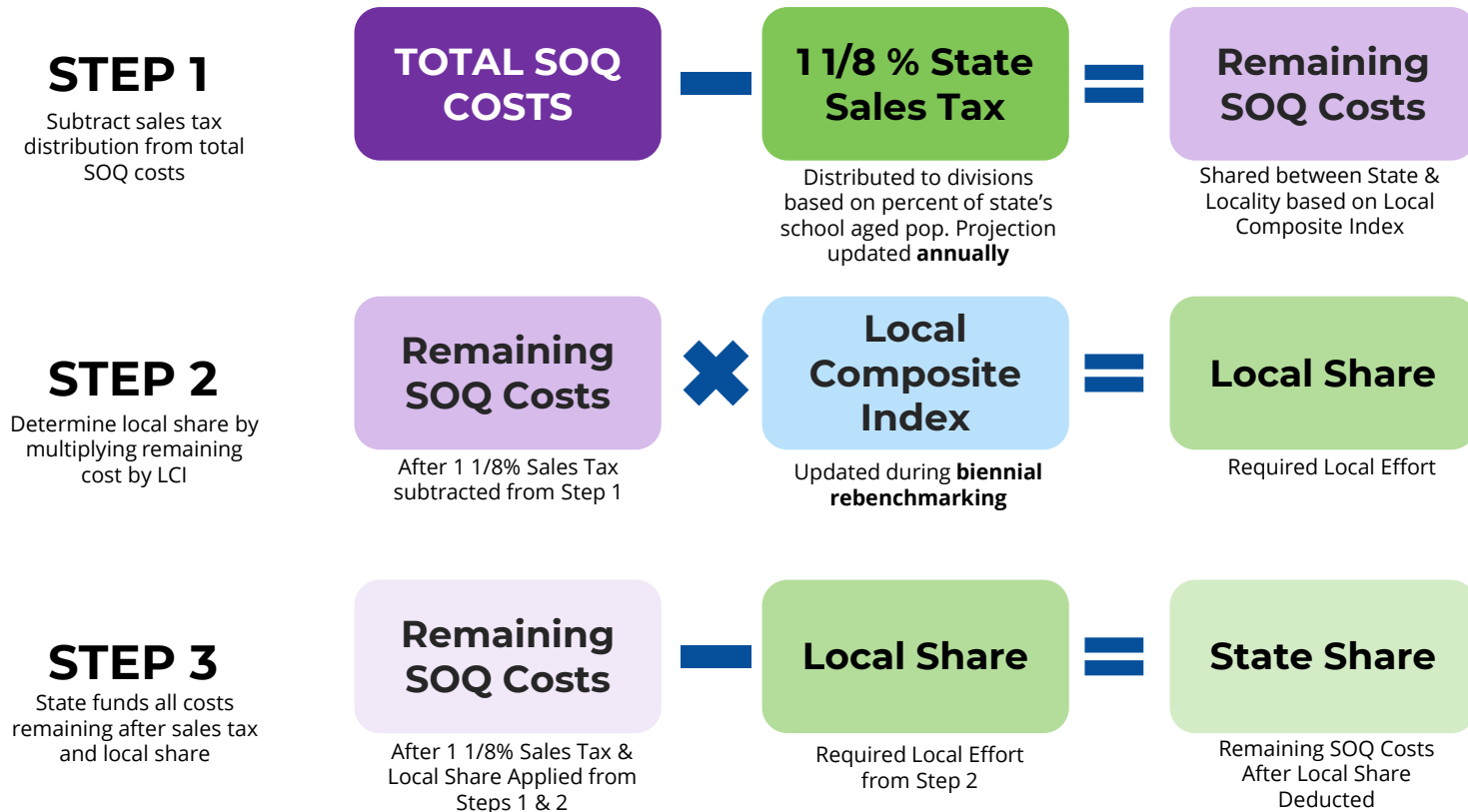
# ESTIMATING TOTAL SOQ COSTS



Enrollment projections are updated **annually**  
Prevailing salaries and other costs are updated during **biennial rebenchmarking**

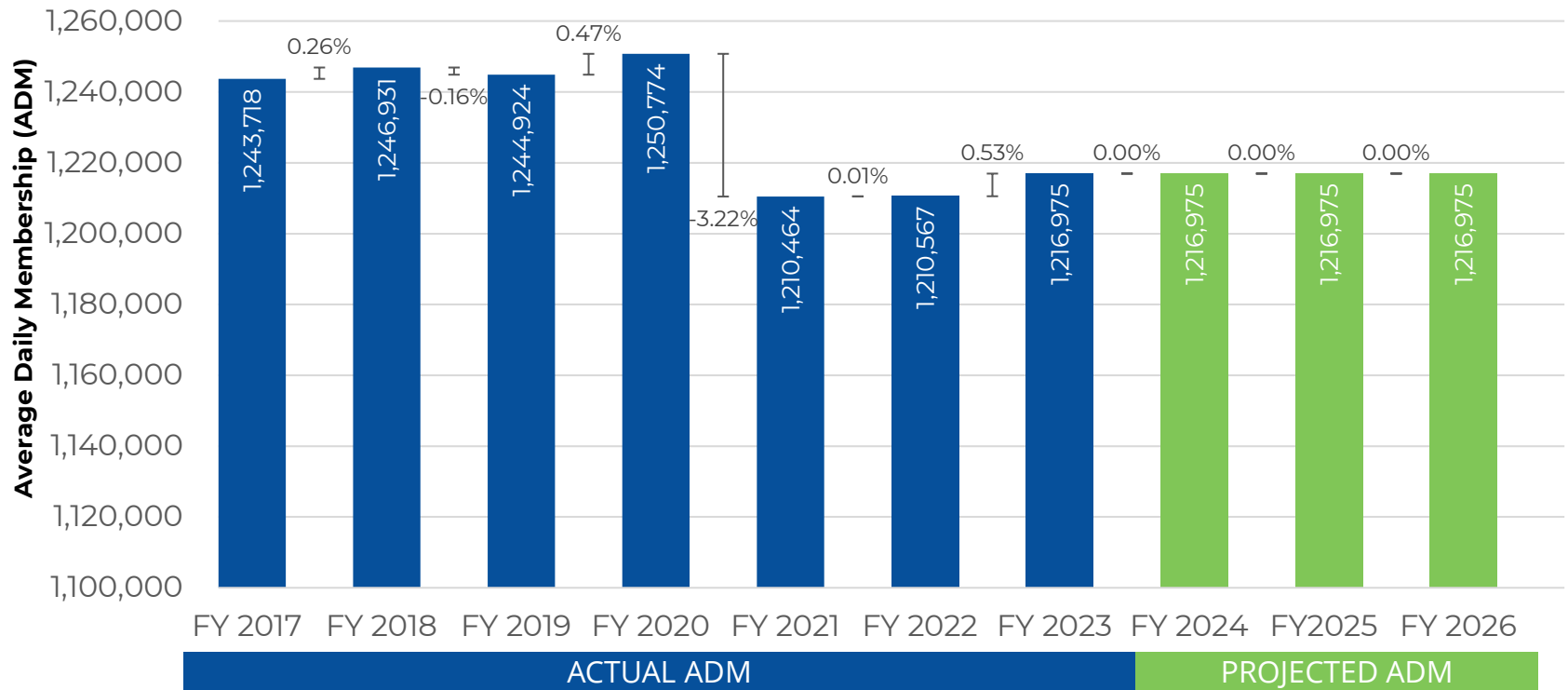
# SHARING SOQ COSTS

**Biennial rebenchmarking** also updates the Local Composite Index, which determines state and local shares of funding for K-12



# STUDENTS AND CHARACTERISTICS

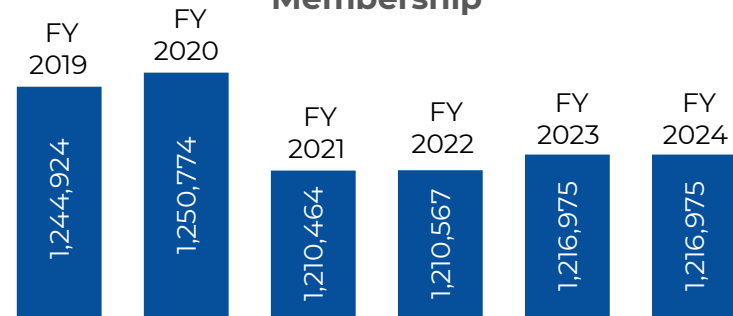
## Lower birth rates and outmigration projected to begin trend of flat enrollment growth



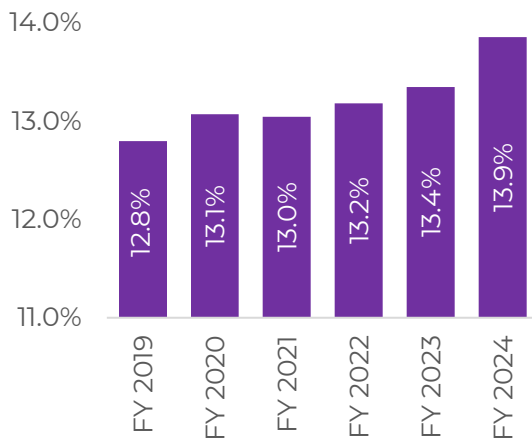
# STUDENTS AND CHARACTERISTICS

**While total enrollment declined over the past six years, the proportion of students requiring additional supports continue to increase**

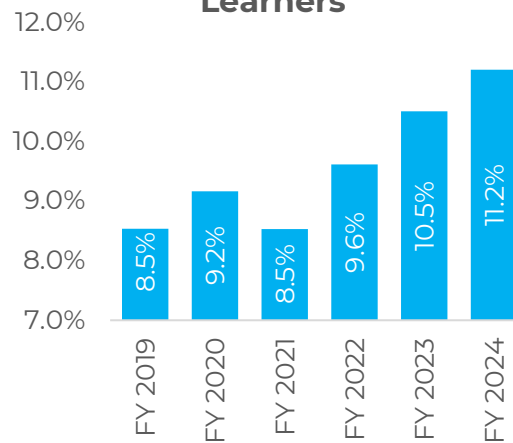
**Total Enrollment: Average Daily Membership**



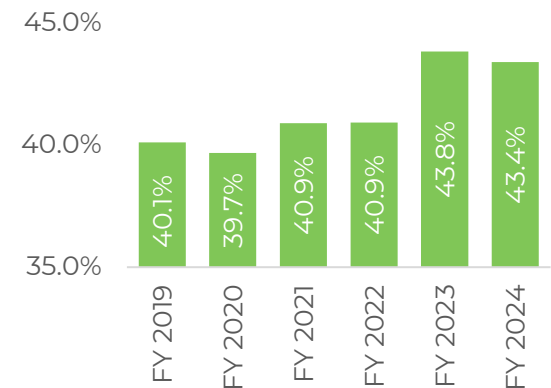
**Students with Disabilities**



**English Language Learners**



**Economically Disadvantaged Students**





# STUDENTS AND CHARACTERISTICS

**\$350.9 million in additional costs,** primarily driven by increases in student populations requiring additional support

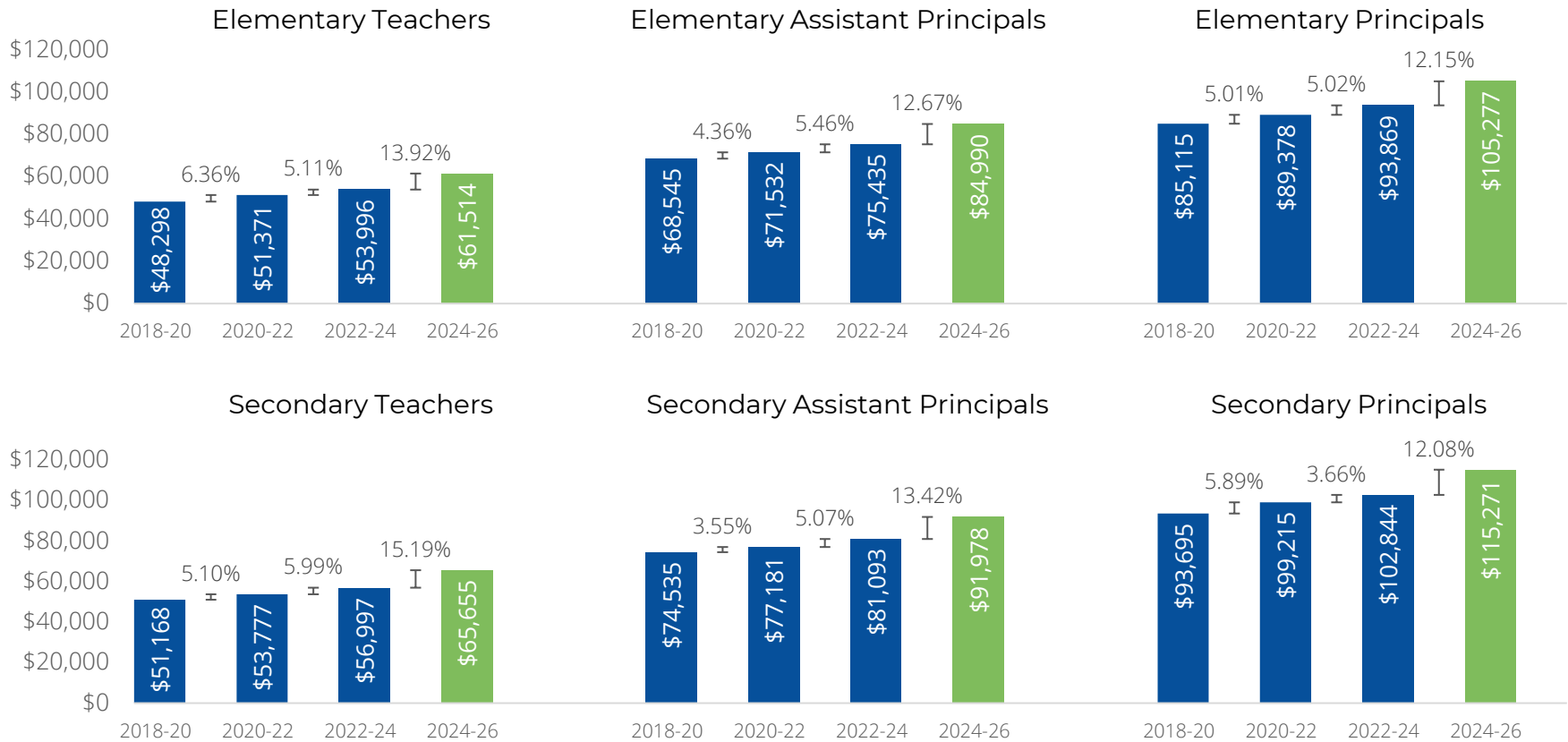
**\$160.2 million in savings** from flattening enrollment

**2024-26 Impact:**  
**\$190.7 million**

Update Student Enrollment & Characteristics (in millions GF)	2024-26 Impact
<b>Update Non-SOQ Programs</b> Free lunch rate increased from 34.5% to 37.6%, reflects first time free lunch applications collected since 2020	\$186.2
<b>Special Education</b> Increase in students served, offset by lower FY 2020 costs in base year data	105.2
<b>English Learner Enrollment</b> Projected increase: 21,000 (15.2%) by FY 2026	27.2
<b>SOL Test Failure Rate &amp; Free Lunch Rate</b>	12.5
<b>Remedial Summer School</b>	11.3
<b>CTE Course Enrollment</b>	8.7
<b>Enrollment</b> Current projection decreased, flattens in 2024-2026	(\$160.2)
<b>TOTAL 2024-26 IMPACT</b>	<b>\$190.7</b>

# PREVAILING COSTS

## State-recognized salaries increased by as much as 15 percent



# PREVAILING COSTS

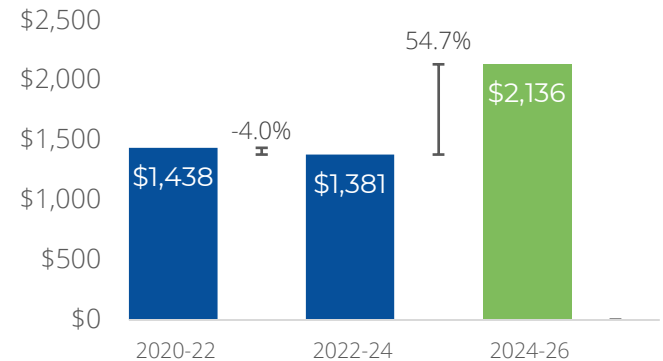
## State-recognized non-personnel support increased 54.7%, driven by:

- Increased costs incurred between FY 2020 & FY 2022, especially for instruction, technology, and operations and maintenance
- Lower costs in prior rebenchmarking due to FY 2020 COVID-19 school closure

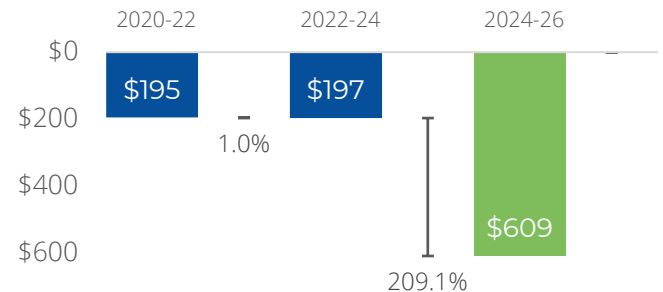
## Federal Aid Deduction recognizes some costs are covered with federal funds

- School division ESSER spending in FY 2022 causes deduction to increase threefold, partially offsetting increased support costs

**Non-Personnel Support Costs Per-Pupil**  
HAC staff estimate



**Max. Federal Deduction Per-Pupil**  
HAC staff estimate



# PREVAILING COSTS

## \$1,514.5 million in additional costs

- Unusually high cost increases due to inflation, salary increases, and additional costs incurred to address COVID-19 learning loss

## \$427.1 million in savings

- \$388.0 million due to capture of FY 2022 ESSER expenditures in base year data
- \$11.0 million from cap on inflation applied to non-personnel support costs

**2024-26 Impact:**  
**\$1,143.5 million**

Prevailing Cost Data Updates (in millions GF)	2024-26 Impact
<b>Non-Personnel Support Costs</b>	\$840.8
<b>Salaries &amp; Benefits</b>	474.4
<b>Transportation</b>	131.2
<b>Va. Preschool Initiative Costs</b> 17% increase above FY 2024 base	56.0
<b>Textbooks</b> 22% increase above FY 2024 base	40.0
<b>Inflation Cap on Non-Personnel Support</b>	(11.0)
<b>Federal Revenue Deduction</b> ESSER Spending beginning to appear in base data	(388.0)
<b>TOTAL 2024-26 IMPACT</b>	<b>\$1,143.5</b>

# 2024-2026 REBENCHMARKING

## SUMMARY

### 2024-26 Impact to date:

# \$1,339.6 million

- Marked increases in costs reflecting COVID-19 recovery coupled with inflation
- Enrollment beginning to flatten, however students with additional needs increasing
- Additional data updates will be included in the Governor's Introduced budget

K-12 Direct Aid Cost Updates for 2024-26 (GF in millions)	2024-26 Impact
<b>Prevailing Cost Data</b> from prior slide	\$1,143.5
<b>Student Enrollment &amp; Characteristics</b> from prior slide	190.7
<b>Update Lottery Proceeds Forecast</b> offsets GF	4.6
<b>Update sales tax distribution</b> school age population	0.8
<b>TOTAL PRELIMINARY K-12 COST UPDATE</b>	<b>\$1,339.6</b>

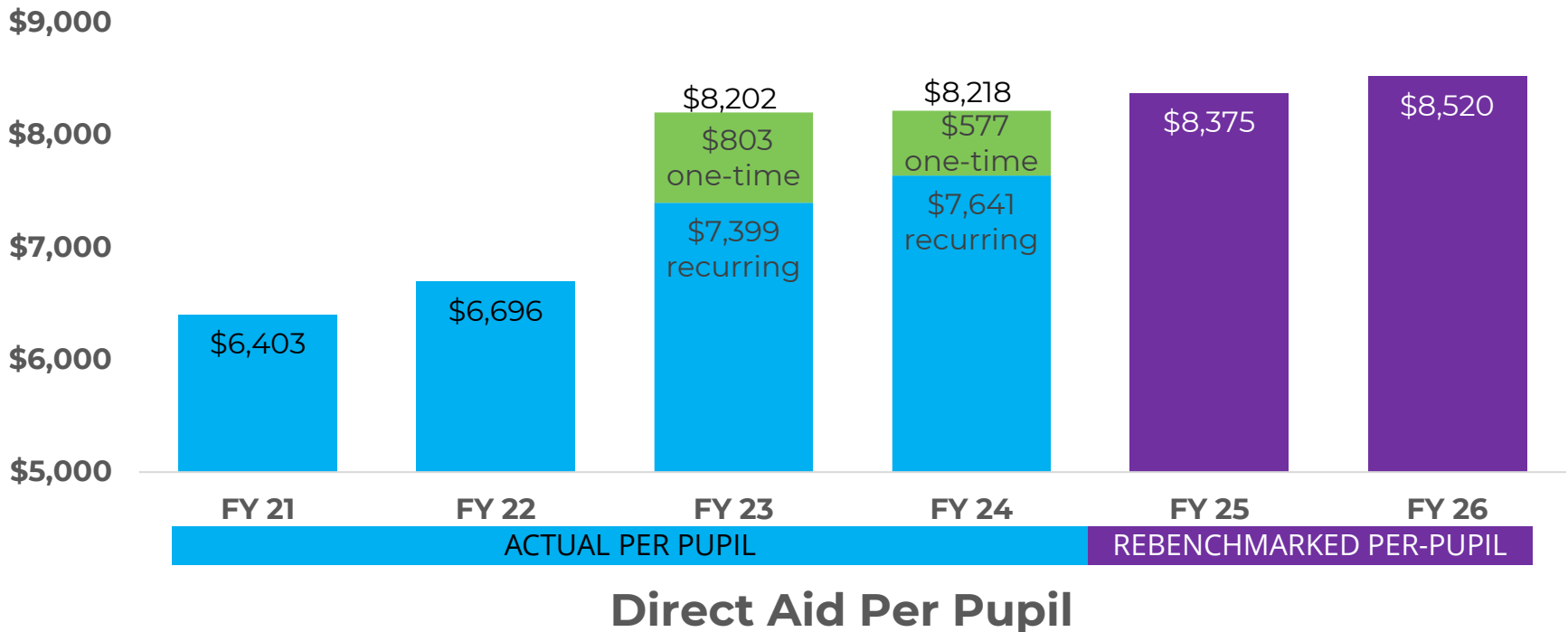
### Pending Updates:

- additional enrollment updates
- sales tax reforecast
- LCI for 2024-26 biennium
- fringe benefit contribution rates



# 2024-2026 REBENCHMARKING TOTALS \$1.3 BILLION

On a per-pupil basis, rebenchmarking costs 10% in FY 2025 and 11.5% in FY 2026, however school divisions will see more modest increases based on large one-time spending in current biennium



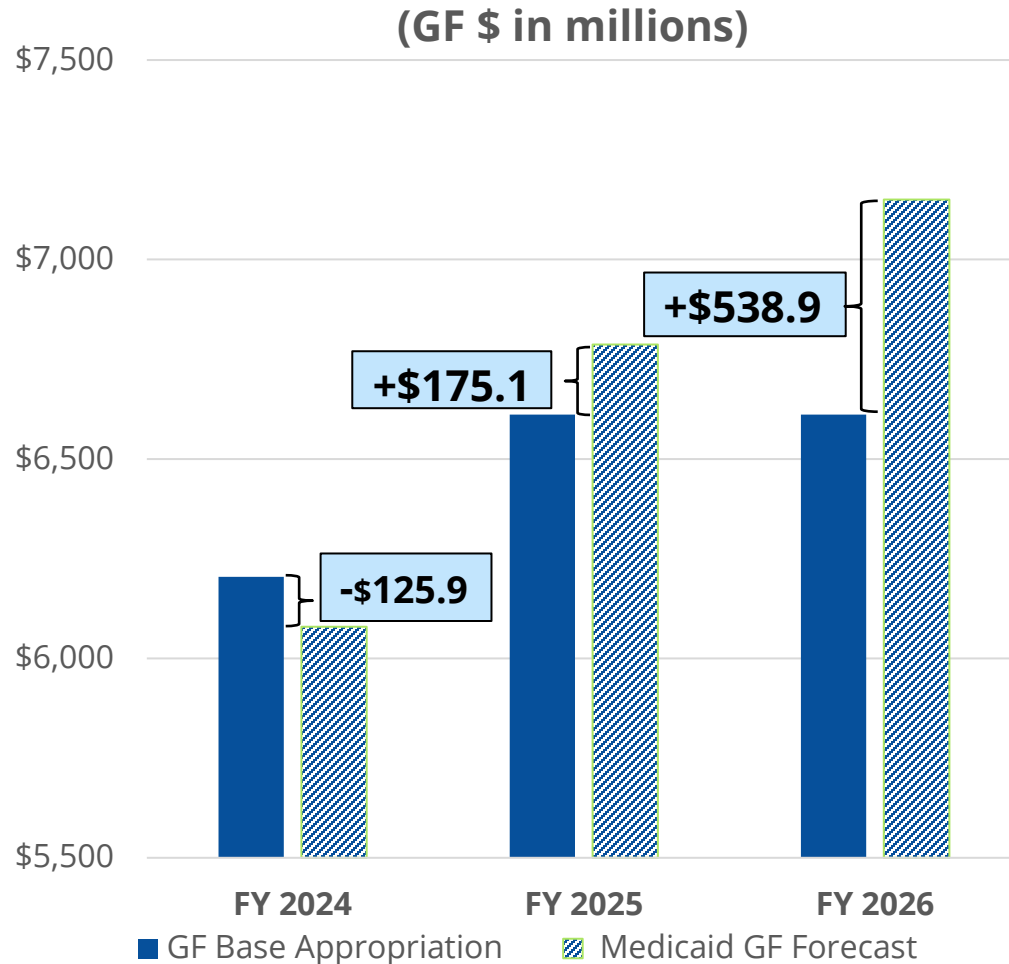
# MEDICAID FORECAST

# MEDICAID FORECAST

- 2023 Official Medicaid forecast updates projected spending for FY 2024 and the 2024-26 biennium for the current Medicaid program
- Amount of funding needed is also influenced by Virginia Health Care Fund
  - Comprised of tobacco taxes, Medicaid recoveries (including drug rebates) and 41.5% of the Master Tobacco Settlement Agreement
  - Revenues are used as a portion of the state's match for the Medicaid program
- In recent years the VHCF had more revenue to offset GF costs, partially from managed care organizations' (MCO) payments for low utilization & excess profits during the pandemic
  - VHCF is projected to decline significantly in FY 2024 and in the 2024-26 biennium
  - Revenue changes in the VHCF are not included in the Official Medicaid forecast, but will be included in the December introduced budget



# NOV. 2023 MEDICAID GENERAL FUND EXPENDITURE FORECAST



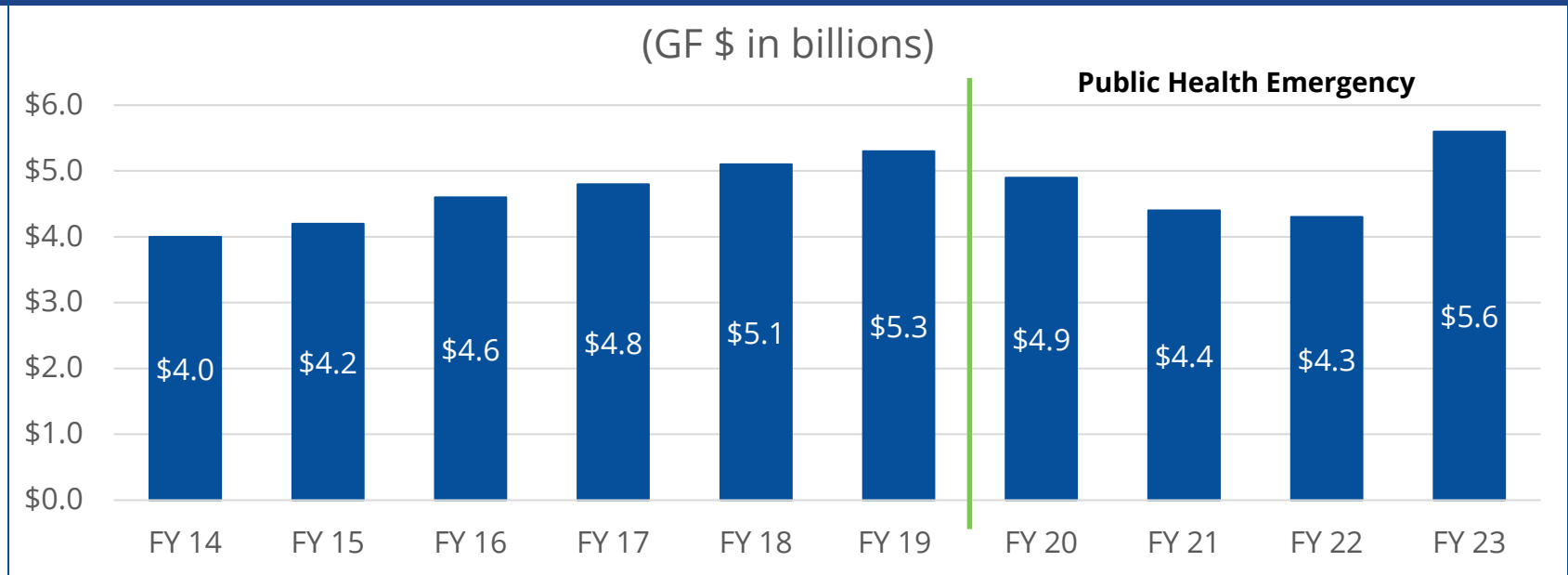
- General fund spending on Medicaid's non-expansion enrollees is estimated to decline slightly in FY 2024 and increase by \$714.0 million over the 2024-26 biennium
- The lower FY 2024 base GF appropriation reflects the use of one-time actions in the program to maximize enhanced federal reimbursement (eFMAP), for example:
  - Only 11 managed care capitation payments in FY 2024 because one monthly payment was administratively transferred to FY 2023 to take advantage of a higher eFMAP rate
  - Return to 12 capitation payments are reflected in the base appropriation for FY 2025 and FY 2026
- Spending does not include Medicaid expansion, funded through a hospital assessment and federal funds

# NOV. 1 MEDICAID GF FORECAST

(\$ IN MILLIONS)

FY 2024	Forecast	Appropriation	Difference
<b>General Fund</b>	<b>\$6,078.9</b>	<b>\$6,204.7</b>	<b>(\$125.9)</b>
Federal Funds	\$6,418.9	\$8,578.8	(\$2,159.9)
FY 2025	Forecast	Appropriation	Difference
<b>General Fund</b>	<b>\$6,786.5</b>	<b>\$6,611.4</b>	<b>\$175.1</b>
Federal Funds	\$6,911.1	\$6,686.9	\$224.2
FY 2026	Forecast	Appropriation	Difference
<b>General Fund</b>	<b>\$7,150.3</b>	<b>\$6,611.4</b>	<b>\$538.9</b>
Federal Funds	\$7,173.6	\$6,686.9	\$486.7

# BASE MEDICAID GF EXPENDITURE GROWTH

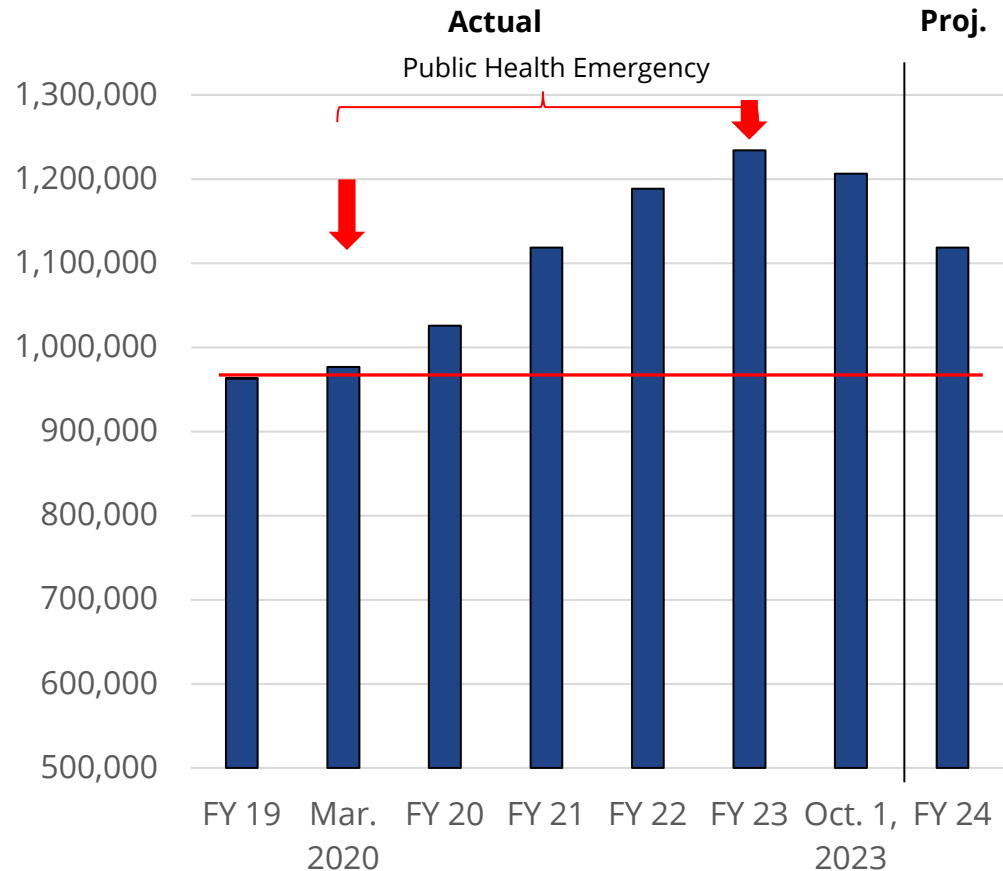


- State funded Medicaid expenditures have declined during the Public Health Emergency, due primarily to enhanced federal reimbursement, including:
  - More than \$3.1 billion in eFMAP provided in all of FY 2021, FY 2022 and FY 2023, and two quarters of FY 2020 and FY 2024
  - \$407.0 million in a one-time 10% enhanced federal match for Home and Community Based Services from April 1, 2021 through March 31, 2022
  - \$80.0 million in ARPA funding

# MEDICAID ENROLLMENT CHANGES FY 2019 – FY 2024

- Enrollment is the primary driver of Medicaid spending
- Base Medicaid (GF) program enrollment grew by 29% during the Public Health Emergency
  - 263,974 enrollees added in GF non-expansion Medicaid program from March 2020 through May 1, 2023
- Virginia began eligibility unwinding on April 1, 2023 when requirement for continuous Medicaid coverage ended
- Base Medicaid enrollment is projected to drop by 115,768 enrollees by the end of FY 2024, lower than originally projected

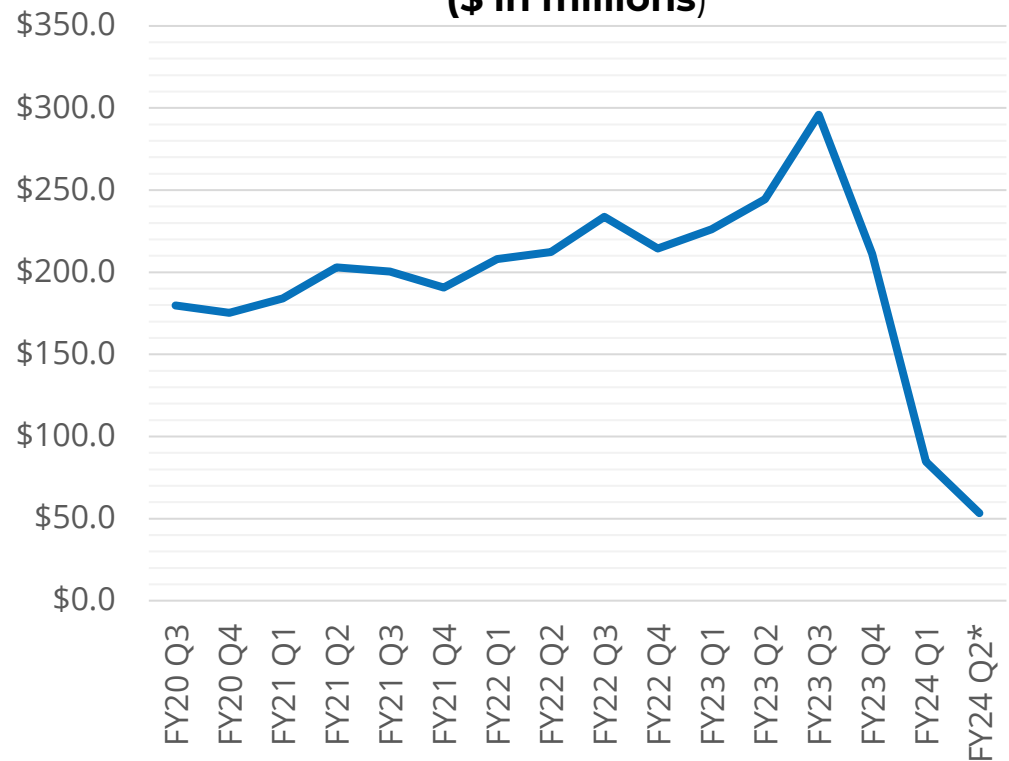
## Base Medicaid Enrollee Growth



# \$3.1 BILLION IMPACT OF FEDERAL ENHANCED FMAP

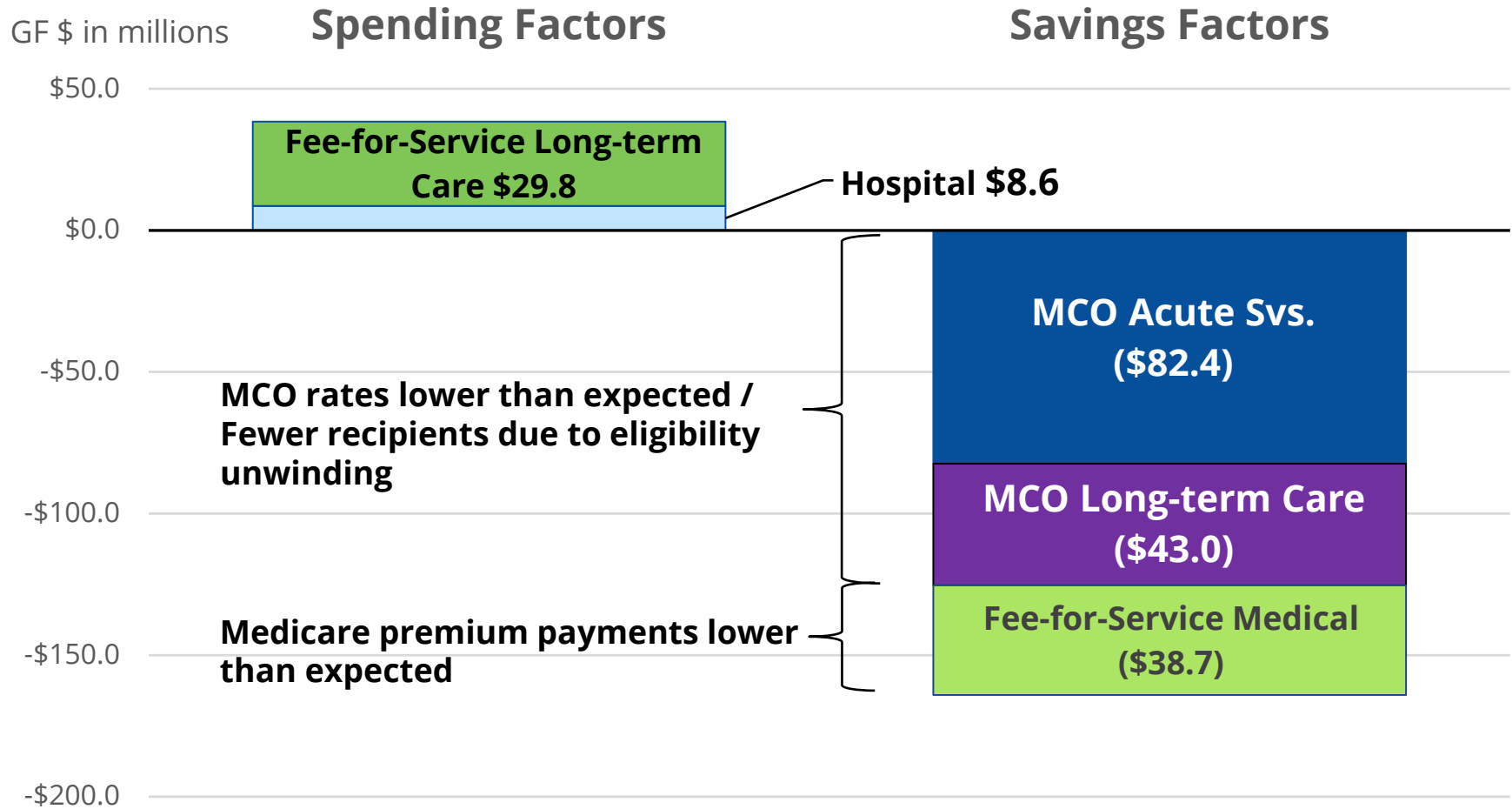
- Enhanced federal reimbursement from FY 2020 Q3 through FY 2024 Q2 will total more than \$3.1 billion
- eFMAP helped to offset the GF cost of serving the increased number of Medicaid enrollees during the pandemic
- eFMAP began declining in FY 2023 Q3, but Virginia has employed strategies to maximize the receipt of eFMAP until it ends on Dec. 31, 2023

**Quarterly Amount of eFMAP Payments  
(\$ in millions)**



\*Estimated amount

# FACTORS DRIVING FY 2024 REDUCTION IN STATE SPENDING

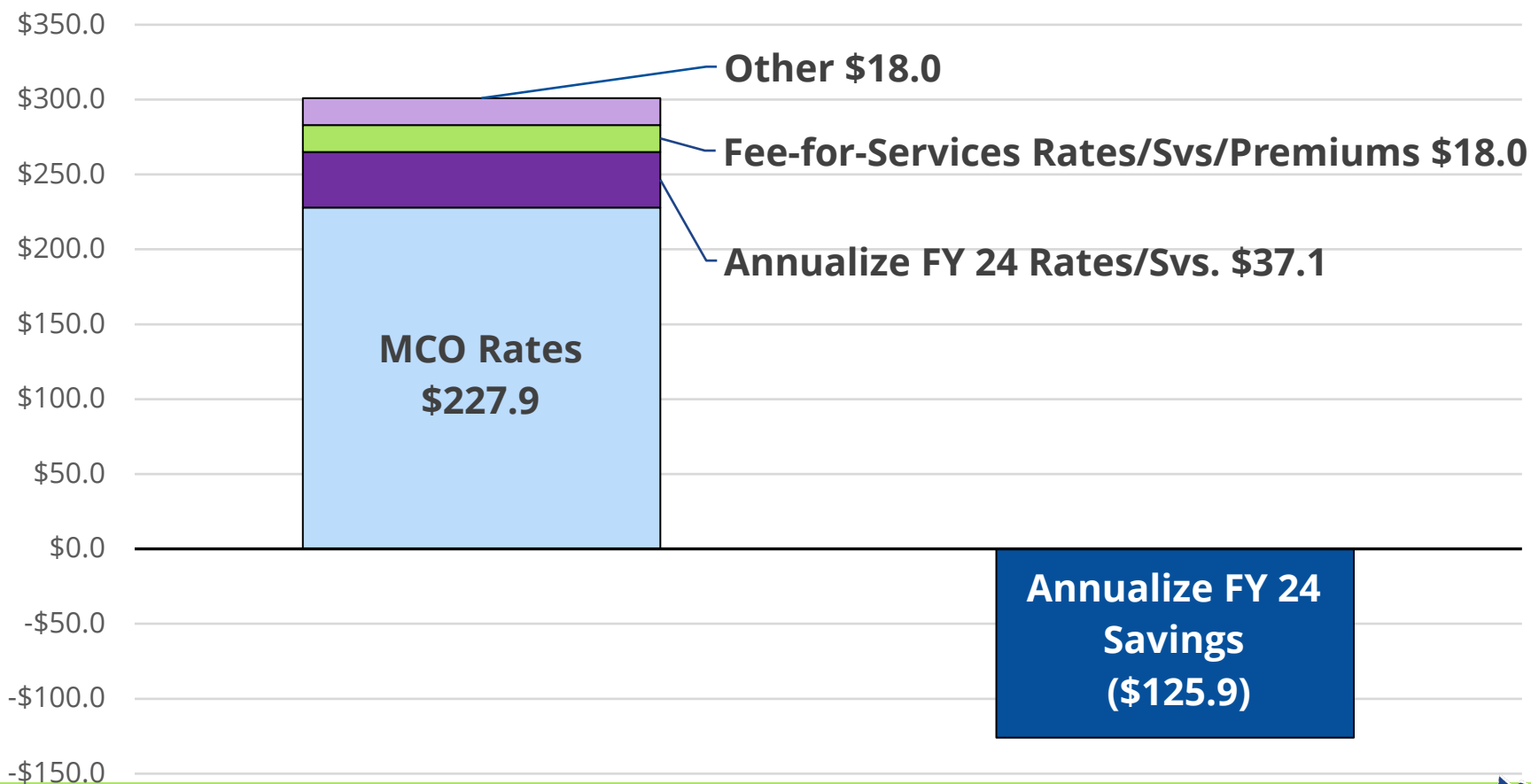


# FACTORS DRIVING FY 2025 FORECAST

GF \$ in millions

## Spending Factors

## Savings Factors

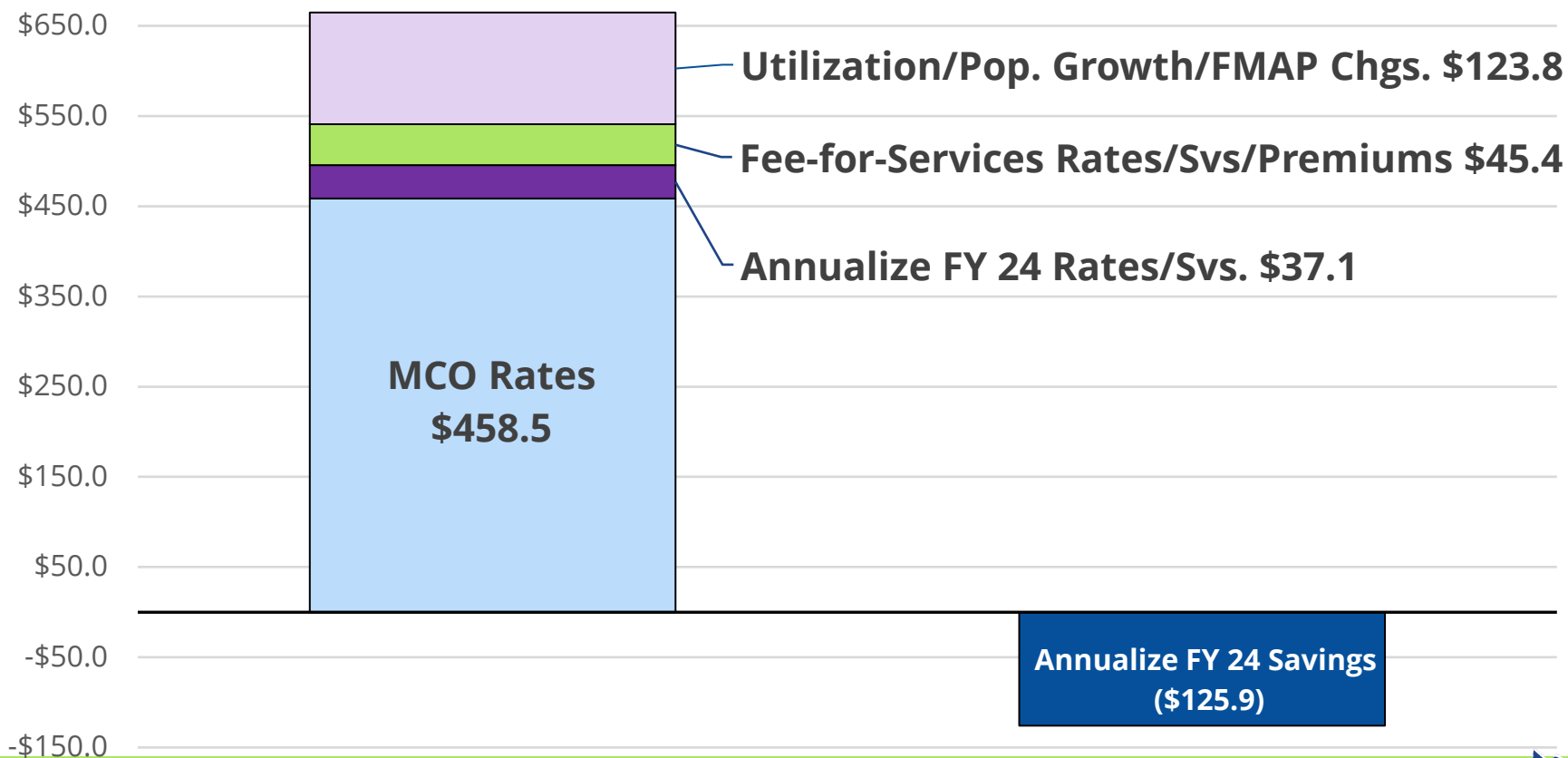


# FACTORS DRIVING FY 2026 FORECAST

GF \$ in millions

## Spending Factors

## Savings Factors





# MANAGED CARE RATES

- MCO rates drive Medicaid expenditures
  - Medicaid makes capitated payments on behalf of 91% of Medicaid enrollees who participate in managed care programs
- Rates are required to be actuarially sound by federal government
- MCO rates have a significant impact on the program in the 2024-26 biennium

Managed Care Rates (non-expansion)	FY 2025		FY 2026	
	%	GF \$ in millions	%	GF \$ in millions
Long-term Care	4.8%	\$132.4	4.8%	\$285.8
Acute Care	7.0%	\$95.5	4.5%	\$172.7
<b>Total</b>		<b>\$227.9</b>		<b>\$458.5</b>

- Key drivers of MCO rates
  - Increasing medical and behavioral health utilization
  - Inflation adjustments
  - Increase in population using nursing home and other long-term care services

# IMPACT OF MEDICAID PROVIDER INFLATION ADJUSTMENTS

- Hospital and nursing home inflationary adjustments (required by regulations) impact both managed care and fee-for-service expenditures

Medicaid Provider Inflation Adjustments in Forecast	FY 2025		FY 2026	
	%	GF	%	GF
Hospitals & Other Facilities	3.6%	\$38.5	3.2%	\$81.0
Nursing Homes	3.1%	\$30.6	3.1%	\$66.1
<b>Total</b>		<b>\$69.1</b>		<b>\$147.1</b>

# POST FORECAST FACTORS COULD IMPACT MEDICAID EXPENDITURES

Enrollment may not decline as originally projected

Sicker enrollees remain in Medicaid as healthier individuals disenroll

Higher utilization of services, particularly long-term care

Inflation

Expect significantly lower GF offset from the Va Health Care Fund

- Additional MCO payments not anticipated for excess profits and underwriting gains (largely a factor of pandemic health care utilization patterns)
- Lower tobacco tax revenues and pharmacy rebates
- Pre-pandemic 5-year average annual revenue from VHCF was about \$400 million (8.4% of Medicaid GF appropriations), compared to pandemic era amounts averaging almost \$600 million (10.6% of Medicaid GF appropriations)

# IDENTIFIED HIGH PRIORITY SPENDING

General Fund \$	FY 2025	FY 2026
<b>Judicial and Executive</b>		
OES- New Enterprise Resource Planning System	\$1,000,000	\$2,500,000
COA - Additional Staffing to Address Workloads	\$1,444,830	\$1,444,830
OAG - Consumer/Rate Payer Protection Initiatives	\$1,000,000	\$1,000,000
<b>Administration</b>		
Comp Board - Right-Size Per Diem Costs	-\$15,000,000	-\$15,000,000
Comp Board - Technical Adjustments	\$1,700,000	\$1,700,000
<b>Commerce and Trade / Labor</b>		
EDIP - Virginia Business Ready Sites	\$50,000,000	\$50,000,000
EDIP - Site Acquisition Program	\$50,000,000	\$50,000,000
DHCD - Virginia Housing Trust Fund	\$25,200,000	\$25,200,000
DHCD - Southeast Regional Commission	\$200,000	\$200,000
VEDP - Address Cybersecurity Concerns	\$300,000	\$300,000
FMA - Utility and Security Costs	\$709,535	\$720,049
VEC - Staffing for Customer Service	\$7,350,436	\$7,350,436
<b>Elementary and Secondary Education</b>		
DOE - Support for Special Education Reform	\$250,000	\$250,000
DOE - New State Assessment System	\$25,000,000	\$15,000,000
DOE - Statewide Student Information System	\$18,804,000	\$14,691,200
Direct Aid - 4 <sup>th</sup> and 5 <sup>th</sup> grade reading specialists	\$16,868,870	\$16,868,870

# IDENTIFIED HIGH PRIORITY SPENDING

	General Fund \$	FY 2025	FY 2026
<b>Higher Education</b>			
Financial Aid and Waivers		\$20,000,000	\$20,000,000
Tuition Moderation (3%)		\$40,000,000	\$40,000,000
Workforce Credential Grant		\$2,500,000	\$2,500,000
Internships		\$5,000,000	\$5,000,000
VTAG to \$5,250		\$3,600,000	\$3,600,000
EVMS Merger		\$20,000,000	\$20,000,000
<b>Health and Human Resources</b>			
DBHDS - Salary Alignments Actions		\$19,875,000	\$19,875,000
DBHDS - Part C Early Intervention		\$2,600,000	\$2,600,000
DBHDS - Additional Mental Health Investments		\$12,000,000	\$12,000,000
DMAS - Add 750 Developmental Disability Slots Each Year		\$39,900,000	\$83,400,000
DMAS - Add 20 Psychiatric Residency Slots		\$1,000,000	\$1,000,000
DMAS - Replace & Upgrade Agency Fiscal Syst. and Enterprise Applications		\$1,900,000	\$2,800,000
VDH - Drinking Water Projects State Match for Bipartisan Infrastructure Act		\$6,500,000	\$6,500,000
VDH - Earn to Learn Funding for Nursing		\$5,000,000	\$5,000,000

# IDENTIFIED HIGH PRIORITY SPENDING

General Fund \$	FY 2025	FY 2026
<b>Health and Human Resources Continued</b>		
VDH - Add 36 Positions in Fiscal Office	\$4,300,000	\$4,300,000
VDH - Add 40 Positions for Chief Medical Examiners	\$4,000,000	\$4,000,000
VDH - Annualize Funding for Beh. Health Loan Repayment Program	\$3,500,000	\$3,500,000
VDH - Enhanced Syphilis Treatment	\$3,500,000	\$3,500,000
VDH - Support for Office of Drinking Water	\$2,800,000	\$2,800,000
DARS - Increase Funds for Home-based Care Provided through Local DSS	\$3,000,000	\$3,000,000
DARS - Council on Aging Director, APS Quality	\$1,000,000	\$1,000,000
DSS - Fund OSIG Child Protective Services Rec.	\$10,200,000	\$47,500,000
DSS - Fund Kinship Care/Relative Foster Care Homes & Alt. Living Arrangements	\$20,600,000	\$28,400,000
DSS - LDSS IT Security Compliance	\$4,200,000	\$4,200,000
DSS - Replace Benefits Eligibility System (VaCMS)	\$4,300,000	\$12,500,000
DSS - Fund Summer EBT Prog. Admin. For SNAP and Summer Feeding Programs	\$2,900,000	\$2,500,000
DSS - Modernize 2-1-1 Statewide Information & Referral System	\$1,000,000	\$1,000,000
DSS - Implement Training Academy for Local DSS	\$1,000,000	\$2,200,000

# IDENTIFIED HIGH PRIORITY SPENDING

General Fund \$	FY 2025	FY 2026
<b>Natural and Historic Resources</b>		
DEQ - E-Permitting and Inspection Program	\$4,385,000	\$765,000
DWR - Permanent Nesting Location for Seabirds	\$4,431,141	\$0
DCR - Additional Support for SWCD Positions	\$977,722	\$977,722
<b>Public Safety and Homeland Security</b>		
DCJS - Victim Witness Assistance Programs	\$2,400,000	\$4,800,000
DCJS - Sexual Assault and Domestic Violence Pgms	\$0	\$3,500,000
DCJS - Aid to Localities with Police Departments	\$6,501,642	\$7,553,468
VSP - Pay Step Plan Annual Increases	\$3,000,851	\$3,006,909
<b>Central Appropriations</b>		
Cost Per 1% Salary Increase Full Year (State Employees Including Faculty)	\$47,500,000	\$47,500,000
Cost Per 1% Salary Increase Full Year (State-Supported Local Employees)	\$13,100,000	\$13,100,000
SCC - Health Benefit Exchange	\$5,000,000	\$47,000,000
Potential 5% Increase Health Insurance Premiums	\$30,500,000	\$30,500,000
<b>Capital Outlay</b>		
Supplement Pool Funding for Authorized Projects	\$100,000,000	\$100,000,000
FF&E for Projects Nearing Completion	\$53,000,000	\$0
<b>Grand Total, High Priority Items</b>	<b>\$701,799,027</b>	<b>\$775,603,484</b>

# LOOKING AHEAD TO 2024 SESSION

- The past 4 years have afforded flexibility to respond to most needs
- Needs in the upcoming biennium will only be met because of the availability of carry-forward balances
- Costs of core services – driven by Medicaid and K-12 Rebenchmarking – will likely outstrip resources going forward
  - While mandatory program increases can be met, high priority expenditures will have to be weighed and balanced against one another
- The concern about structural imbalance expressed the past few years is finally here



# COMPARISON OF RESOURCES TO BUDGET DRIVERS

\$ in millions	FY 2025	FY 2026	Biennium
HAC Estimate – Revenue Increase	\$1,164.5	\$2,107.1	\$3,271.6
Budget Savings/Carryforward (could be FY 24 or 25 depending on Caboose)	3,173.6		3,173.6
<b>Total Additional Resources</b>	<b>4,338.1</b>	<b>2,107.1</b>	<b>6,445.2</b>
<b>Revenues Remaining After Base</b>	<b>2,708.1</b>	<b>477.1</b>	<b>3,185.2</b>
Mandatory Spending	944.5	1,362.6	2,307.1
<b>Resources Remaining</b>	<b>1,763.6</b>	<b>-885.5</b>	<b>878.1</b>
High Priority Spending	701.8	775.6	1,477.4