



House Appropriations Committee

**Proposed Amendments to the 2008-10 Budget
House Bill 1600, as introduced
January 14, 2009**



Revised Revenue Outlook 2008-10 Biennium

	<u>FY 2009</u>	<u>FY 2010</u>	<u>Total</u>
October Revenue Forecast	(\$956.4)	(\$1,515.0)	(\$2,471.4)
November Revenue Forecast	(\$138.6)	(\$229.6)	(\$368.2)
Technical Changes	\$3.0	\$8.1	\$11.1
Transfers			
ABC Profits	\$1.4	\$1.9	\$3.3
Sales Tax 1/4 cent	(\$21.8)	(\$29.2)	(\$51.0)
Other	(\$25.5)	\$0.3	(\$25.2)
Subtotal	(\$45.9)	(\$27.0)	(\$72.9)
Total Shortfall	(\$1,137.9)	(\$1,763.5)	(\$2,901.4)

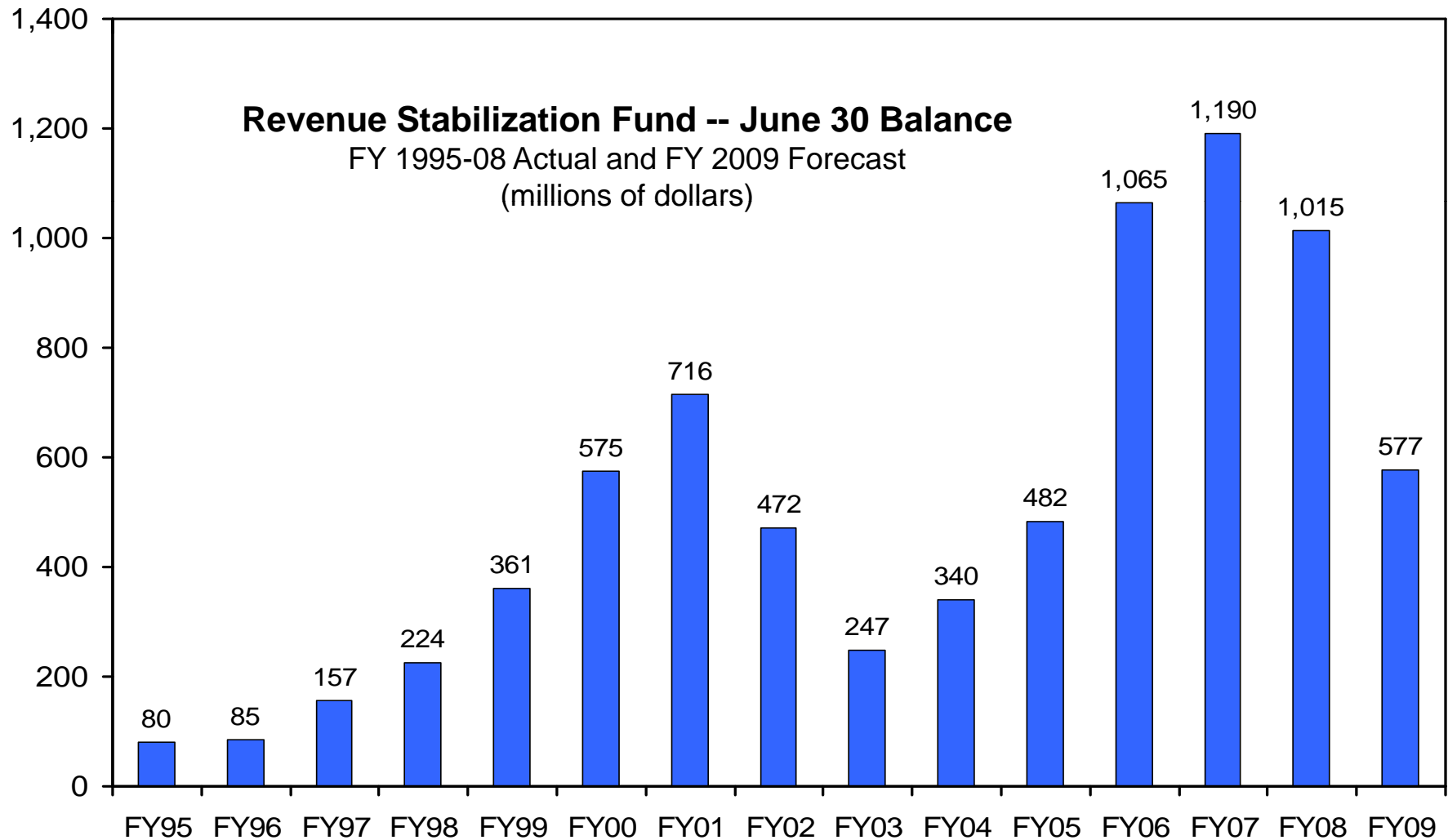
*Amounts shown in millions



Overview: Addressing the Revised FY 2008-2010 Budgetary Shortfall

- The downward revenue revision of \$2.9 billion, when combined with net new spending of \$310.5 million resulted in a shortfall of about \$3.2 billion
- Governor's proposal includes five primary strategies for closing the shortfall:
 - Agency reductions totaling \$1.7 billion, (including \$242 million from eliminating the funded 2% salary increases)
 - Rainy Day Fund withdrawal of \$490 million in FY 2009
 - Use of \$378 million in NGF balances and other NGF transfers
 - Supplanting \$350 million of GF capital projects with bonded debt
 - Tax policy changes of about \$292 million, including \$155 million NGF from increase in tobacco taxes


Rainy Day Fund Status – Assumes FY 2009 Withdrawal of \$490 million



Proposed Tax Policy Changes

- Governor's budget amendments assume the adoption of a number of policy changes, resulting in a net increase of \$138 million for the general fund
 - With the exception of the use of excess court fees, each will be accompanied by stand-alone legislation
 - Tax policy changes also contained in Part 3 of the budget
 - These amounts exclude the proposed 30 cent increase in the cigarette tax which would generate \$155 million for the Health Care Fund

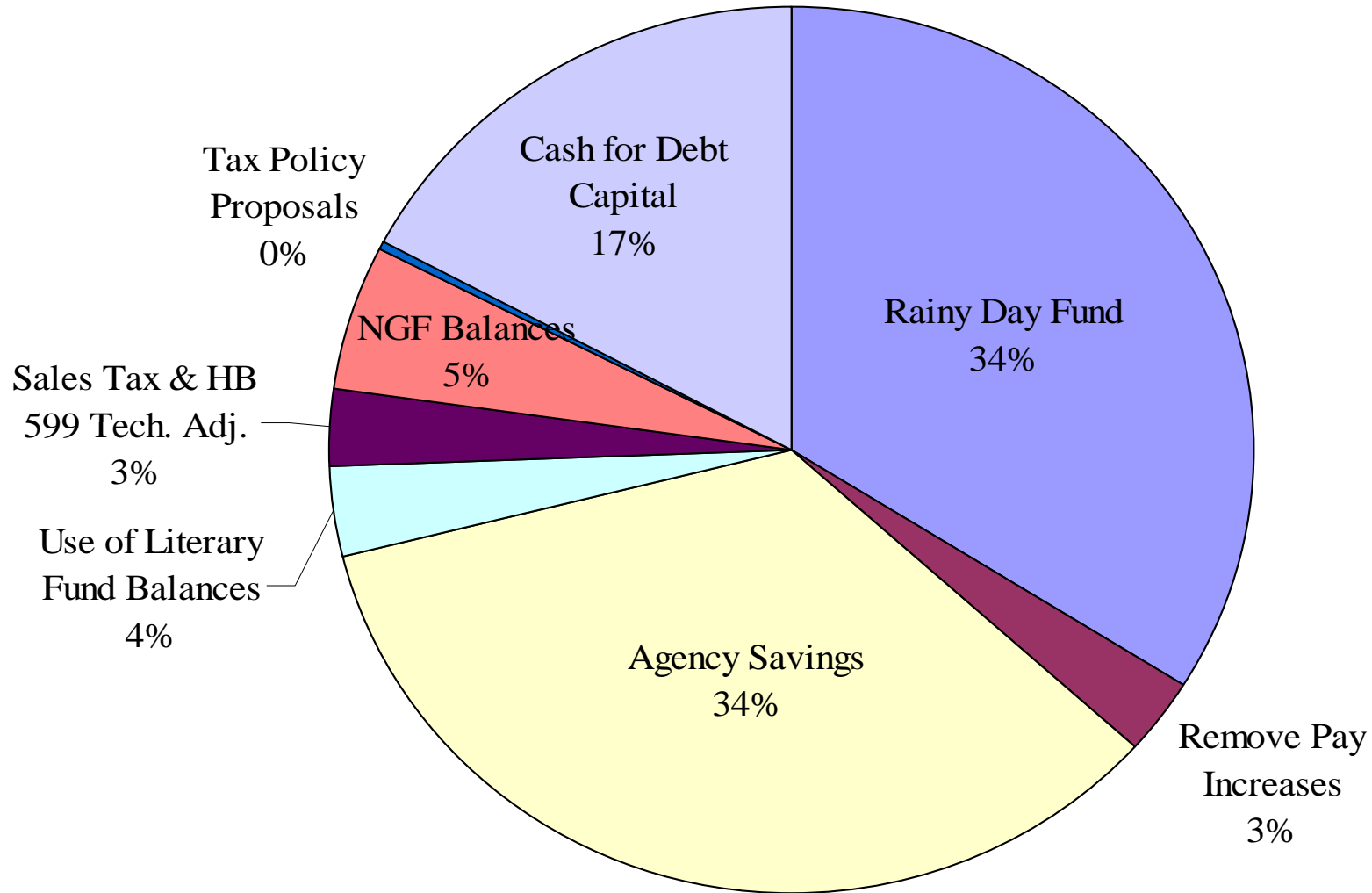
	<u>FY 2009</u>	<u>FY 2010</u>	<u>Total</u>
Circuit Court Excess Fees	-	\$6.0	\$6.0
Dealer Discounts on Sales Tax	-	\$64.3	\$64.3
Captive REIT Legislation	-	\$10.0	\$10.0
Advance Fixed Date Conformity	(\$2.8)	\$10.5	\$7.7
Cap Land Preservation Tax Credit	-	\$50.0	\$50.0
Sales Tax on Cigarettes	-	\$2.0	\$2.0
Energy Tax Credit	-	(\$2.0)	(\$2.0)
Energy Sales Tax Exemption	-	(\$0.2)	(\$0.2)
Subtotal	(\$2.8)	\$140.6	\$137.8



On-Going vs. One-Time Reductions

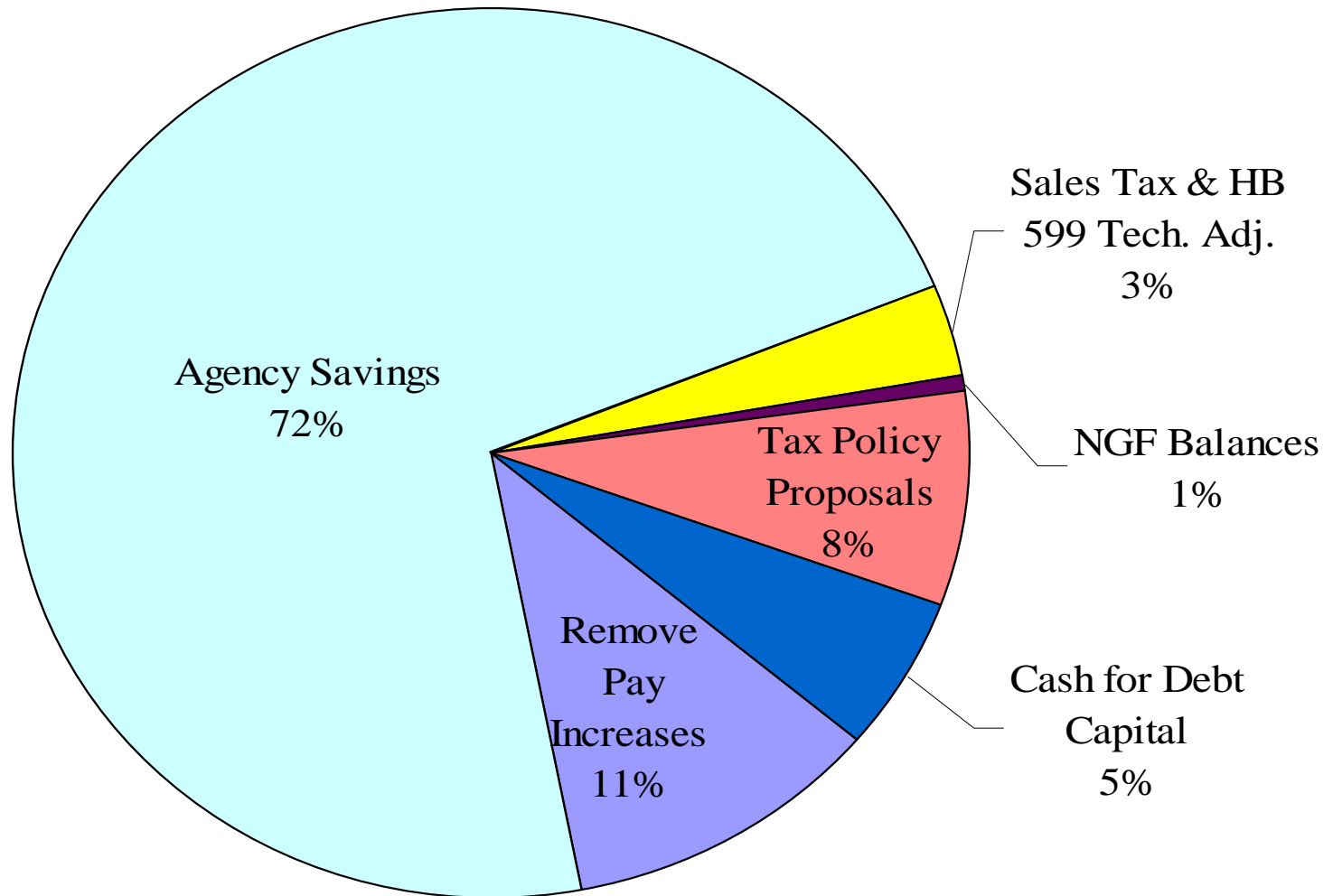
- In part because of timing issues, the Governor's October and December proposals were designed to:
 - "Manage" the 2009 shortfall
 - Address FY 2010 more strategically
- Majority of FY 2009 savings are "one-time" strategies like use of the Rainy Day Fund and swapping debt for cash in Capital projects
 - One-time actions used to solve about 70% of the problem in FY 2009
- However, in FY 2010 – the budget against which the next biennial base budget will be built – 87% of the savings are on-going, largely agency reductions
 - Excluded from consideration as on-going in FY 2010 are: tax policy proposals, \$100 million capital swap, and about \$70 million in agency actions like the sale of buildings

FY 2009 Budget Balancing Actions



Note: Portion of agency savings are one-time

FY 2010 Budget Balancing Actions



HB 1600 Selected Savings

GF \$ in Millions	FY 2009	FY 2010	Total
DMAS: GF Savings from Cigarette Tax \$0.30 to \$0.60 per pack	0.0	154.9	154.9
DMAS: Delay Managed Care Payments by One Month	59.8	0.0	59.8
DSS: Replace GF Spending with TANF Block Grant Funds	19.7	18.1	37.8
DMAS: Delay Hospital Quarterly Payments from Last Qtr. Of the Fiscal Year to the First Qtr. of the Next Fiscal Year	32.2	0.0	32.2
DMAS: Lag Medicaid provider payments by one week	25.0	0.0	25.0
DMHMRSAS: Reduce Funding for CSB Admin. Costs	12.4	12.4	24.8
DMAS: Reduce Hospital Inpatient Rates	0.0	15.7	15.7
DMAS: Suspend the State/Local Hospitalization Program	0.0	10.9	10.9
CSA: Reduce Funding for Anticipated Caseload Growth	5.0	5.0	10.0
DMAS: Delay Medicare Premium Payments to Federal Govt.	9.5	0.0	9.5
DMAS: Cap Spending on Medicaid Long-term Care Waivers	0.0	9.2	9.2
DMAS: Repeal the Indigent Health Care Trust Fund	0.0	8.6	8.6
DMAS: Close Southeastern Virginia Training Center	0.0	8.4	8.4
DMAS: Implement Provider Assessment on ICF-MRs	0.0	7.1	7.1
DMHMRSAS: Close Commonwealth Ctr. For Children & Adol.	0.0	6.2	6.2
DMHMRSAS: Close SWVMHI Adolescent Unit	0.0	1.4	1.4

HB 1600 Selected Savings

GF \$ in Millions	FY 2009	FY 2010	Total
Public Education: Policy Changes -			
Establish a Funding Cap for Support Positions	0.0	\$340.9	\$340.9
Eliminate Lottery for ppa; add 6 prgs & move 2 prgs to GF	0.0	55.8	55.8
Eliminate 2% Salary Adjustment	0.0	71.6	71.6
Transfer Literary Fund Balances from FY 2008	51.3	0.0	51.3
Eliminate School Construction	0.0	27.5	27.5
Reduce Group Life & Retiree Health Care Credit rates	0.0	2.7	2.7
Close 2 Special Education State Operated Facilities	0.0	1.9	1.9
Public Education: Technical Updates	57.0	103.5	160.5
Higher Education: Across-the-Board Reductions	86.1	210.0	296.1
Eliminate Tuition Moderation Fund	6.3	12.6	18.9
Phase Out TAG for Graduation Students	0.0	2.1	2.1
Higher Education Center Reductions	7.6	7.0	14.6
Reductions to State Museums and Library of Virginia	5.1	5.4	10.5
Close DOC Facilities	6.1	31.0	37.1
HB 599 Reductions	7.7	14.4	22.1
Virginia Revolving Loan Fund	3.0	0.0	3.0



HB 1600 Selected Savings

GF \$ in Millions	FY 2009	FY 2010	Total
DEQ – Eliminate Positions	0.8	4.1	4.9
Eliminate State Employee Salary Increases	43.6	124.6	168.2
Reduced Contributions into VSDP	3.3	25.1	28.4
Reduced Contributions for Early Retiree Health Care	0.0	4.1	4.1
Constitutional Officers: Across-the-Board Reductions	0.0	43.5	43.5
Line of Duty: Fund on Pay-As-You-Go Basis	2.9	2.6	5.5
VDACS Program and Personnel Reductions	1.8	3.2	4.9
Department of Forestry	1.9	2.3	4.2
Incentive Grant Programs – Reduced Payment Requirements	0.8	9.5	10.3
Enterprise Zone Grants	1.1	2.3	3.4
Indoor Plumbing Program	1.6	1.6	3.2
Economic Development Partnership and Tourism Authority	1.8	1.8	3.6

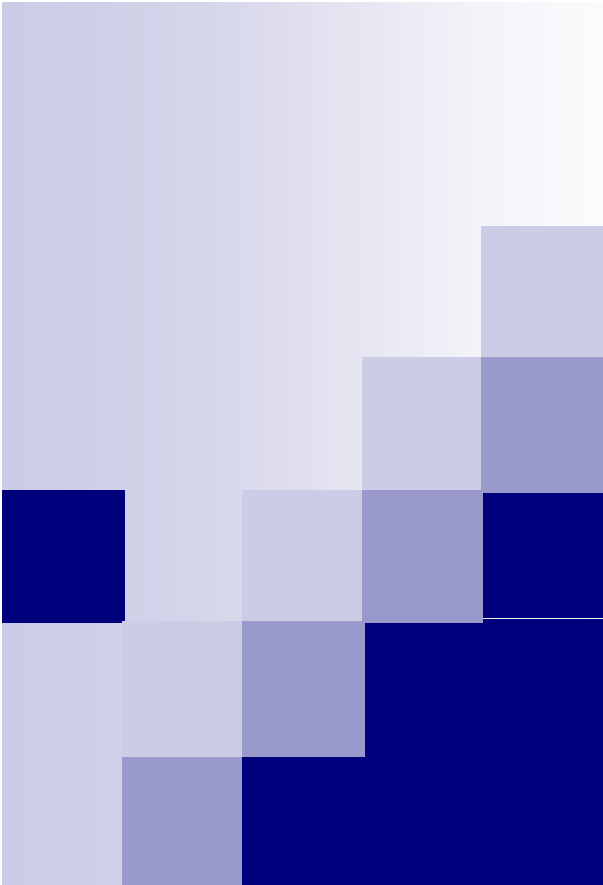


HB 1600 Spending

- Spending increases in HB 1600 total about \$400 million
 - About \$290.3 million of the new spending, almost 75 percent of the total, is at Medicaid
 - \$268.4 million is attributable to Medicaid utilization and enrollment increases
 - Other large spending items are listed below:
 - Treasury Board - \$20.7 million in additional debt service costs, reflecting proposals to swap out GF cash for debt
 - Criminal Fund/Involuntary Civil Commitment Fund - \$12.0 million over biennium
 - Natural Resources - \$10.0 million for the Natural Resources Commitment Fund



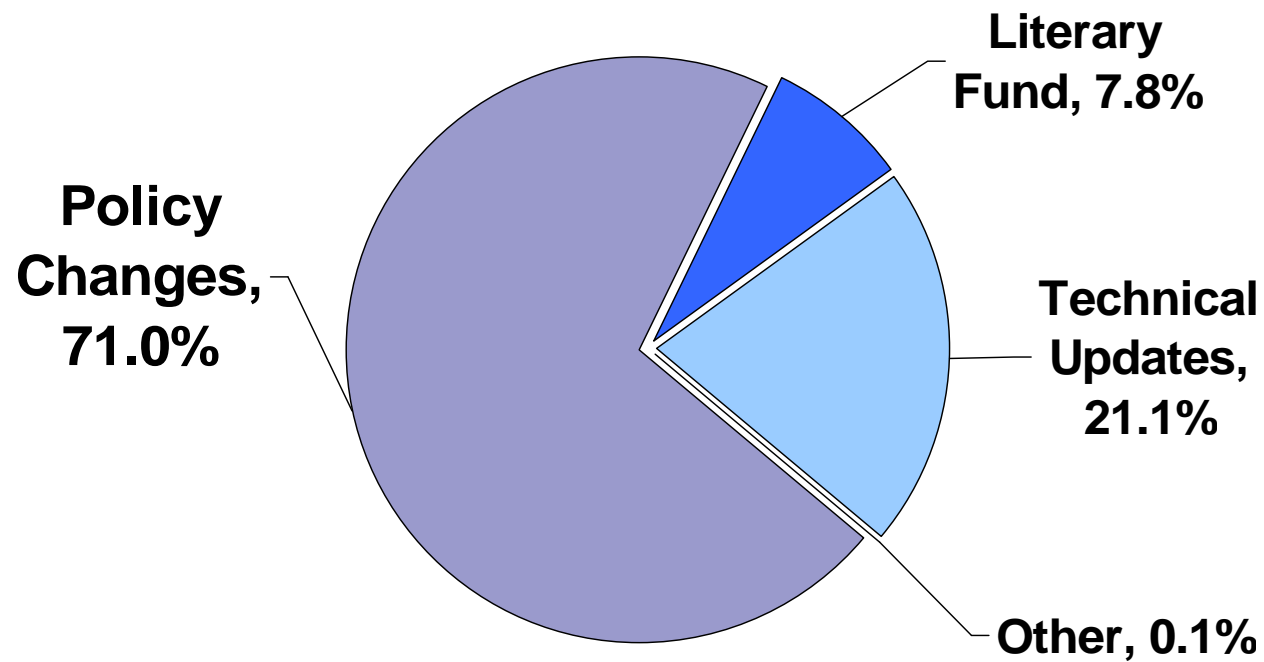
Details by Secretarial Area



Public Education: Elementary and Secondary

Public Education

Reductions total \$691.9 million GF million over the biennium





Public Education

- The Governor's proposed revised 2008-2010 budget for Direct Aid to Public Education equals \$11.0 billion GF and \$2.9 billion NGF
 - The budget, as introduced, proposes a net biennial reduction of \$691.9 million GF and \$6.9 million NGF
 - Majority of the changes are generated from:
 - Policy changes: \$491.2 million GF in savings
 - Revised Literary Fund: FY 2008 balances and updated forecast estimates: \$54.4 million GF in savings & \$54.4 million NGF increase
 - Revised Lottery Fund forecast estimates: \$61.3 million NGF decrease
 - Technical updates for revised ADM, sales tax, participation in incentive and categorical accounts: \$145.9 million GF in savings



Policy Changes: Support Funding Cap

- The largest proposed policy change in public education establishes a funding methodology to calculate the cost of support positions resulting in a savings of \$340.9 million GF in FY 2010
- The revised policy establishes a funding cap ratio of one support position for every 4.03 instructional positions in the SOQ model
 - Under the new methodology for every 1,000 students it provides funding for 18.71 support positions
 - 22,811 support positions
 - Excludes school superintendents, school board members, school nurses and pupil transportation positions
- The ratio is based on a three-year linear weighted average ratio of actual support to instructional positions reported by localities on the Annual School Report (ASR) from FY 2005, FY 2006 & FY 2007
- No impact to funded instructional positions: all teachers, resource teachers, instructional aides, principals, assistant principals, counselors and librarians

Policy Changes: Lottery Fund

- The amended budget contains several policy changes that redirects FY 2010 Lottery profits as follows:
 - Shifts six programs previously funded in the general fund into Lottery
 - (Alternative Education, ISAEP, Special Education - Regional Tuition, Vocational Education - Categorical, NCLB/ EFAL, and Project Graduation)
 - Returns Remedial Summer School and Enrollment Loss program accounts back into the general fund
 - Redirects the per pupil Lottery distribution per locality into a one-time Funding Loss Supplement to localities as a part of the Governor's support position funding cap proposal
 - Supplement limits the reduction from the support position funding cap to a maximum of \$403 per pupil

<u>Lottery Distribution for FY 2010</u>	<u>Chapter 879</u>	<u>HB 1600</u>
Lottery Profits	\$461,000,000	\$461,000,000
<u>Update Forecast</u>	<u>0</u>	<u>(30,800,000)</u>
Lottery Revenue Profit	\$461,000,000	\$430,200,000
Assigned Programs	\$309,726,358	\$272,328,305
Shift 6 Programs In & 2 Programs Out	0	96,965,235
Per Pupil Allocations	151,273,642	0
<u>Funding Loss Supplement</u>	<u>0</u>	<u>60,906,460</u>
Total Lottery Expenditures	\$461,000,000	\$430,200,000



Literary Fund

- Budget contains two proposed actions for the Literary Fund:
 - Utilizes \$51.3 million in FY 2008 balances for teacher retirement costs in FY 2009
 - Reflects updated forecast amounts of the Literary Fund available for teacher retirement resulting in the following general fund changes
 - FY 2009: \$8.8 million increase in GF
 - FY 2010: \$11.9 million reduction in GF

Updates for Sales Tax

- The budget reflects two changes to the sales tax revenues
 - Governor's proposed tax policy changes (dealer discounts, cigarette sales, energy efficiencies) provides a net increase between basic aid and sales tax of \$9.2 million GF in FY 2010
 - Revised sales tax forecast results in a net decrease between basic aid and sales tax of \$74.2 million GF

<u>Sales Tax - Proposed Revisions</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>Biennial Total</u>
Chapter 879	\$1,194,705,900	\$1,255,203,540	\$2,449,909,440
*Policy Changes	30,556	21,049,722	21,080,278
<u>*Forecast Updates (Oct & Dec)</u>	<u>(68,505,900)</u>	<u>(101,103,540)</u>	<u>(169,609,440)</u>
HB 1600 Sales Tax Distribution Total	\$1,126,230,556	\$1,175,149,722	\$2,301,380,278
*Sales Tax Total Revisions	(68,475,344)	(80,053,818)	(148,529,162)
Basic Aid adjustment Policy changes	(17,199)	(11,812,487)	(11,829,686)
Basic Aid adjustment Forecast updates	<u>38,561,423</u>	<u>56,873,982</u>	<u>95,435,405</u>
NET CHANGES	(\$29,931,120)	(\$34,992,323)	(\$64,923,443)



Other Actions

- Eliminate planned 2% salary increase for all SOQ funded positions: \$71.6 million GF in savings for FY 2010
- Shift of six programs into Lottery Fund and two programs back into general fund: \$55.8 million GF in savings
- Remove funding support for School Construction: \$27.5 million GF in savings for FY 2010
- Reduce rates for Retiree Health Care Credit and Group Life: \$2.7 million GF in savings for FY 2010
- Eliminates special education payments to Southwestern Mental Health Institute and Commonwealth Center for Children & Adolescents for educational services: \$1.9 million GF in savings for FY 2010
 - Both facilities are scheduled for closure



Technical Updates to SOQ, Incentive & Categorical Accounts

- Revised projected student ADM for slower estimated growth: \$79.5 million GF decrease
 - FY 2009 \$33.8 million decrease: 4,717 fewer students
 - Revised ADM estimate of 1,200,102
 - FY 2010 \$45.7 million decrease: 4,154 fewer students
 - Revised ADM estimate of 1,207,692
- Updates to Incentive and Categorical Programs for lower student participation:
 - FY 2009 \$2.0 million decrease
 - FY 2010 \$1.7 million decrease
- Corrects the special education child count for Hanover County; costing \$6.8 million GF in FY 2010
- Technical update for the 2008 Triennial Census data changes the sales tax distributions to localities and increases the SOQ Basic Aid payments by \$4.6 million GF in FY 2010



Language Amendments

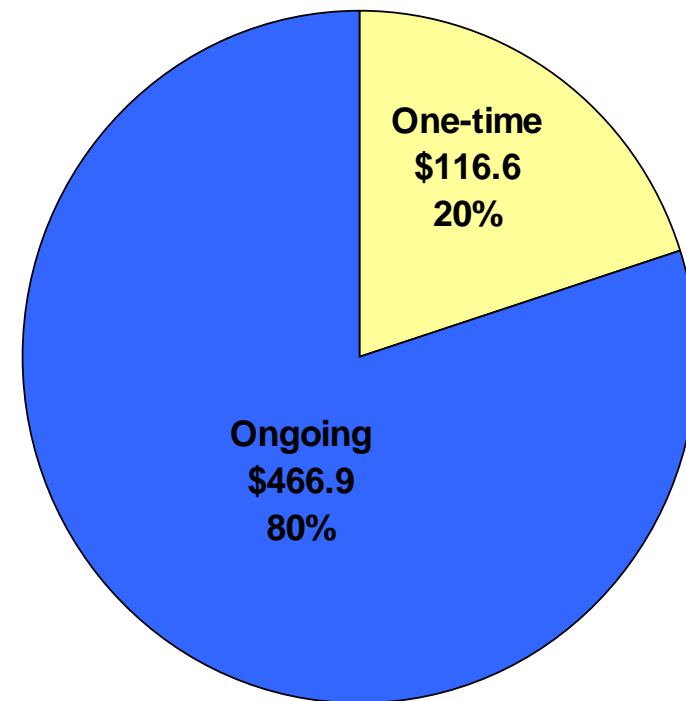
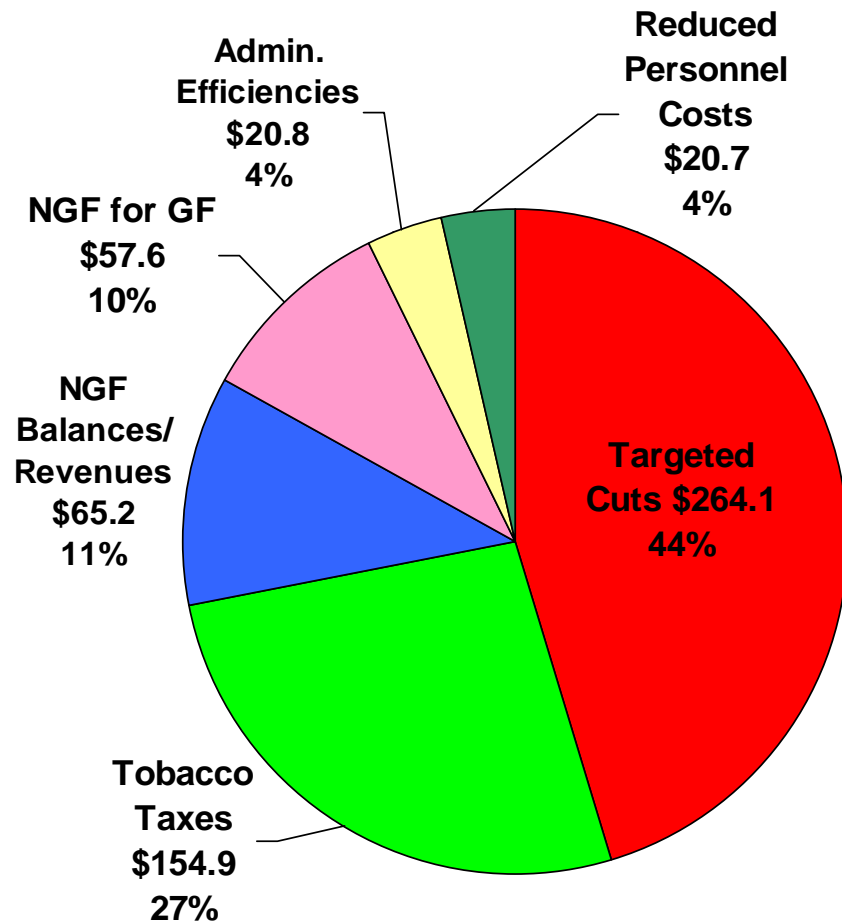
- The introduced budget provides several amendments that increase flexibility to localities spend allocated state funding to hire supplemental positions:
 - Use of instructional technical resource funds for data coordinators
 - Use of SOQ Prevention, Intervention, & Remediation for ESL teachers
 - Use of Early Reading Intervention Lottery funds for reading specialists
 - Use of SOL Algebra Readiness Lottery funds for math specialists
- Other language amendments allow localities:
 - Carry any FY 2009 balances into FY 2010
 - Use any balances from local escrow accounts for operating expenses in FY 2010
- The amended budget directs DOE to distribute any remaining Lottery fund balances in FY2010 to localities without any local matching requirements



Health & Human Resources

Health & Human Resources

Reductions total \$583.4 million GF over the biennium
\$ in millions





New Spending of \$296.1 million GF

- Mandatory programs
 - \$268.4 million GF for Medicaid enrollment and utilization
 - \$11.7 million GF for children's health insurance enrollment and utilization
 - \$6.8 million GF to offset Virginia Health Care Fund revenues in FY 2009
 - \$2.4 million GF for adoption subsidy caseload and cost increases
 - \$1.8 million GF for involuntary mental commitments

- Other spending
 - \$1.7 million GF in FY 2010 for a 3 percent increase in Medicaid rates for consumer-directed personal care for waiver recipients
 - \$1.0 million GF in FY 2009 for Virginia Food Banks
 - \$755,908 million to relocate the DSS central office
 - \$455,083 GF over the biennium to add 6 death investigators within district offices of the Office of the Chief Medical Examiner
 - \$215,000 GF in FY 2010 to hire 2 positions in DMHMRSAS to oversee and coordinate Autism and developmental disability services



Medicaid Savings

- Medicaid spending is offset by the following actions:
 - Generating \$154.9 million in FY 2010 by increasing the cigarette tax from 30 to 60 cents per pack and changing the tax for other tobacco products to a 25 cents per ounce rate for moist snuff, effective July 1, 2009
 - Revenue from this action is deposited into the Virginia Health Care Trust Fund which is used to offset GF costs in the Medicaid program
 - Generating \$126.5 million in FY 2009 by changing provider payment schedules
 - Saving \$24.6 million GF in FY 2010 by reducing provider payments
 - Saving \$24.8 million over the biennium by capping enrollment and services in long-term care waivers
 - Generating \$7.1 million GF in FY 2010 by imposing a provider assessment on intermediate care facilities for the mentally retarded (ICF-MRs)

Medicaid Provider Payment Changes

Changes in Provider Payment Schedules	FY 2009	
	GF Savings	NGF Savings
<u>Managed care organizations:</u>		
Lags monthly payments by one month beginning June 2009	\$59.8	\$59.8
<u>Inpatient hospitals:</u>		
Changes quarterly payments for Disproportionate Share Hospitals and Direct and Indirect Medical Education from last quarter to the first quarter of the next fiscal year beginning June 2009 (primarily affects teaching hospitals)	\$32.2	\$32.2
<u>Other Medicaid providers:</u>		
Increases the billing lag for Medicaid payments from one week to two weeks beginning the last week of FY 2009	\$25.0	\$25.0
<u>Medicare Part A and B premiums:</u>		
Changes payments to the federal government from the end of the fiscal year until the beginning of the next fiscal year starting June 2009	\$9.5	\$9.5

Medicaid Provider Payment Changes

Provider Payment Reductions	FY 2010	
	GF Savings	NGF Savings
<u>Inpatient hospitals:</u> Reduce allowable costs from 78% to 75% for acute and rehabilitation hospitals* Reduce allowable costs from 84% to 81% for inpatient psychiatric services*	\$15.7	\$15.4
Reduce allowable costs for capital from 80% to 75%*	\$4.4	\$4.3
Eliminate special indirect medical education payments in non-Virginia hospitals for Neonatal Intensive Care Units with high Medicaid usage	\$0.1	\$0.1
Eliminate payments for hospital acquired conditions	\$0.1	\$0.1
Long-stay hospitals: Modify reimbursement method from cost-based to method used for all other hospitals	\$1.0	\$1.0
Congregate residential providers: Reduce rates 1.6%	\$2.2	\$2.2
Freestanding psychiatric facilities: Rebase rates not to exceed 100% of allowable costs	\$1.1	\$0.4
*Exempts hospitals with Medicaid usage greater than 50 percent.		



Medicaid Enrollment & Service Caps

■ Enrollment Caps

- Saves \$5.9 million GF in FY 2010 by capping enrollment in the Elderly and Disabled waiver program at 15,250 slots
 - Potentially 1,680 individuals could be on waiting list for a slot
 - Savings are net of other expenses if individual qualifies for Medicaid nursing home care, Medicare premium payments or Medicaid reimbursement for acute care services
- Saves \$5.8 million GF by eliminating 200 new mental retardation waiver slots scheduled to be added on April 1, 2009

■ Service Caps

- Saves \$9.2 million GF in FY 2010 by capping services provided to Medicaid waiver recipients so the service costs do not exceed the average cost of care in an institutional setting
- Saves \$3.9 million GF over the biennium by limiting environmental modifications and assistive technology to certain waiver programs and for those transitioning from an institutional to a community setting



Facility Closures

- Southeastern Virginia Training Center (SEVTC)
 - 175 residents and 471 employees
 - Savings of \$12.5 million GF in FY 2010
 - Offset by costs of \$4.1 million to move 120 residents into community placements
 - 55 residents will be transferred to other state training centers
 - WTA costs estimated to be \$16.5 million to come from proceeds of land sale
- Commonwealth Center for Children And Adolescents (CCCA)
 - 48 beds and 130 employees
 - Savings of \$8.3 million GF in FY 2010
 - Offset by costs of \$2.1 million for private, inpatient mental health services for children needing acute care
 - WTA costs estimated to be \$3.3 million for 100 employees to be paid for out of the proceeds of sale of land currently occupied by Western State Hospital (WSH) and CCCA
 - 30 FTEs are expected to fill vacancies at WSH
- Southwest Virginia Mental Health Institute (SWVMHI) Adolescent Unit
 - 16-bed unit and 28 employees
 - Savings of \$1.4 million GF in FY 2010
 - Offset for costs for community services for children served by unit included in the \$2.1 million listed above for the CCCA
 - WTA costs estimated at \$736,507 to be paid for from the proceeds of the sale of Western State Hospital (WSH) and CCCA



Issues Related to SEVTC Closure

- Can residents be responsibly placed in community slots by July 1, 2009?
 - Does community capacity currently exist?
 - Are funds set aside for community care sufficient to meet the needs of individuals discharges?
 - Proposal assumes an average of \$90,000 per client discharged (all funds)
 - Institutional care averages \$131,580 (all funds)
 - Community care averages \$67,516 per slot (all funds)
- What if more than 55 residents choose to move to other training centers instead of community living?
 - Do other facilities have capacity? (No. Virginia and Southside Training Centers?)
 - Would any residents be placed at CVTC? If so, how does that affect planned renovations at that facility?
 - Is the cost of care higher at other training centers compared to SEVTC?
- Capital issues
 - What is the value of the land at SEVTC? How quickly could property be sold?
 - Assuming funds to build additional community capacity are approved and available in the spring, how quickly can community facilities be built?
 - Who would own the community facilities and who would pay for the operational costs?
- Personnel Issues
 - How can proceeds of the land sale be used to pay for employee WTA costs?
 - Land cannot be sold until residents are moved and employees are terminated
 - Proceeds are currently required to be deposited into the Mental Health Trust Fund
 - WTA costs are paid out on a regular schedule beginning with separation from employment



Issues Related to CCCA and SWVMHI Adolescent Unit Closures

- Can patients be responsibly placed in community by July 1, 2009?
 - Are acute inpatient hospitals willing to take patients?
 - Are funds set aside for community care sufficient to meet the needs of individuals discharges?
 - Lengths of stay in state facilities are typically longer than average stays in acute inpatient hospital setting (avg. length of stay at CCCA and SWVMHI is 16.4 days @ \$996 per day)
 - How will forensic patients be served?
 - Will patients need specialized services that require expensive out-of-state placements?
- Capital issues
 - What is the value of the land at the CCCA?
 - Does Western State Hospital rebuild assume the sale of the CCCA?
 - Mental Health Trust Fund proceeds from land sale at WSH were to be used to pay for construction of new facility
 - WSH rebuild is expected to cost more since plan is to move new hospital to a different location and sell land
- Personnel issues
 - How can proceeds of the land sale be used to pay for employee WTA costs?
 - WTA costs are paid out on a regular schedule beginning with separation from employment



Department of Social Services

- Reductions of \$85.3 million GF over the biennium
 - \$37.8 million by supplanting general funds with Temporary Assistance to Needy Families block grant funds
 - \$37.1 million from nongeneral fund balances and revenues
 - Title IV-E foster care revenue surplus
 - Child support prior year retained earnings for collections on behalf of TANF recipients and increases due to tax intercepts from federal economic stimulus payments
 - \$7.0 million from administrative reductions and efficiencies
 - \$1.9 million in targeted reductions
- Savings are offset by \$4.2 million GF in spending
 - \$2.4 million for adoption subsidy payments
 - \$1.0 million for Virginia Food Banks
 - \$0.8 million to relocate the DSS central office



Department of Mental Health, Mental Retardation and Substance Abuse Services

- Reductions of \$67.6 million GF over the biennium
 - \$20.1 million from nongeneral fund balances and revenues from MHMR facilities
 - \$24.8 from reductions to CSBs for administrative costs
 - \$13.7 million from other administrative reductions and efficiencies
 - \$7.6 million from closure of CCCA and SWVMHI Adolescent Unit
 - \$1.4 million from other targeted reductions
- Savings are offset by \$310,743 GF in new spending
 - \$215,000 to add two FTEs to oversee Autism and developmental disability services



Department of Health

- Reductions of \$31.1 million GF over the biennium
 - \$11.0 million from nongeneral fund balances and revenues
 - \$12.1 million from administrative reductions and efficiencies
 - \$3.2 million by supplanting general funds with nongeneral funds
 - \$4.8 million from targeted reductions
- Savings are offset by \$455,083 GF in spending to add 6 death investigators in the Office of the Chief Medical Examiner



Department of Rehabilitative Services

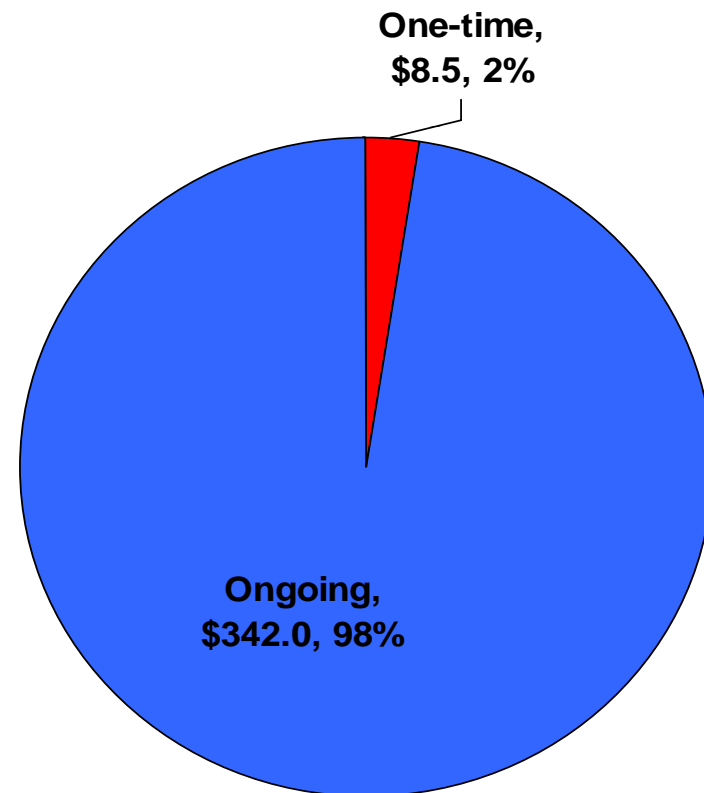
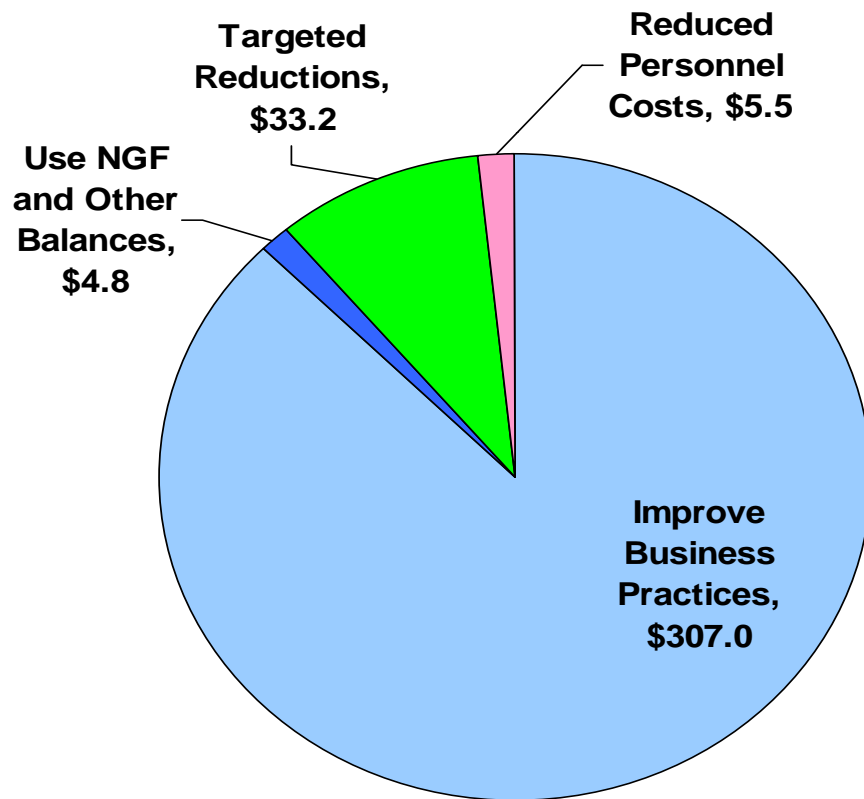
- Reductions of \$9.6 million GF over the biennium
 - \$3.4 million from targeted reductions
 - \$2.3 million from administrative reductions and efficiencies
 - \$2.1 million from reverting nongeneral fund balances
 - \$1.7 million by supplanting general funds with nongeneral funds



Higher Education

Higher Education

Reductions total \$350.5 million GF over the biennium
\$ in millions





Higher Education Institutions

- Reductions of \$86.1 million GF in FY 2009 and \$210.0 million GF in FY 2010
 - First year reductions generally range from 5% to 7% with slightly lower reductions for NSU & VSU
 - Second year reductions were 15% for all institutions except NSU (13%), VSU (11.3%), Richard Bland (10%) and the VCCS (10%)
 - Reductions did not take into account NGF revenue-generating ability or whether an institution moderated tuition in FY 2009 thereby foregoing future revenue stream
 - Actual reductions to be determined by Boards of Visitors
- An additional \$2.0 million was cut in FY 2010 to eliminate pay practice supplemental funding



Higher Education Affordability

- Even with the significant general fund increases from FY 2004 to FY 2007, tuition and fees continued to increase at nearly double-digit rates annually
- As a result, the Tuition Moderation Incentive Fund (TMIF) was first implemented in the 2007 Session of the General Assembly
 - \$7.2 million was allocated to institutions who kept tuition increases for in-state undergraduates to 6%
 - All institutions complied
- In the 2008 Session, the General Assembly increased the TMIF to \$17.5 million each year
 - To be eligible institutions were asked to keep tuition increases for in-state undergraduates to 3% with an additional percent that could be imposed if used for financial aid
 - All but six institutions (GMU, UVA, VCU, VT, CWM & VCCS) complied in FY 2009



Higher Education Affordability

- The proposed budget captures \$6.3 million GF in FY 2009 which reflects the unallocated TMIF funds for the six institutions (GMU, UVA, VCU, VT, CWM, VCCS) that did not participate in the program
- The proposed budget provides \$5.0 million in the second year as continuation funding for the 11 institutions that kept in-state undergraduate tuition increases to no more than 4% in FY 2009
- The proposed budget eliminates the TMIF in FY 2010 resulting in \$12.6 million GF savings
 - The elimination of the fund is based on the assumption that the percentage of in-state students attending the 11 participating institutions reflects 20 to 25 percent of the overall in-state undergraduate population
 - However, the 11 participating institutions generally have the highest proportional in-state undergraduate populations (e.g., CNU = 96%, Longwood = 94%, Radford = 92%, ODU = 91%)
- The budget as introduced proposes a \$25.9 million GF increase in financial aid in anticipation of significant tuition increase for in-state undergraduate students
 - Funding is allocated to only 12 of 17 institutions
 - CNU, CWM, UVA, VMI & VT did not receive an allocation based on the proposed methodology
 - Based on current financial data and the proposed allocation about 14% of in-state undergraduates may be able to maintain the current affordability level



Other Reductions

- Higher education centers were reduced by 6 to 10 percent
- The TAG program was reduced by \$2.1 million representing a phase-out of grants to graduate and professional programs
- Eminent Scholars program is eliminated in FY 2010 for a \$6.0 million savings



New Spending

- \$13.3 million in FY 2010 for interest earnings
- \$1.5 million to VSU in FY 2010 for a manufacturing technology and logistics program
- \$1.3 million for the Two-Year Transfer Grant
 - Tied to proposed legislation which eliminates the science, technology, engineering focus of the program
- \$0.3 million to the VCCS to finance the purchase of about \$800,000 in new workforce development equipment
- \$0.2 million to Longwood to begin a new nursing program



Capital Outlay



Treasury Board

- **Previously authorized** projects – savings of \$7.7 million GF in FY 2009 and \$9.5 million GF in FY 2010 to reflect changes in delay in issuance assumptions and changes in interest rates
- **Proposed** new debt in HB 1600 - \$20.7 million GF increase in FY 2010 primarily to supplant \$350 million in GF projects and \$56 million in NGF projects
- Assumes savings of \$9.7 million GF in the second year from by delaying the issuance of \$58.0 million for the higher education equipment trust fund authorized for FY 2009 in Chapter 879
- Proposes savings of \$4.3 million GF in each year of the biennium from deferring the principal payments, only making the interest payment, during the biennium on the Virginia College Building Authority Variable Rate Demand Bonds



Use of Debt

- Supplant Previously Authorized Projects
 - HB 1600, as introduced, recommends the supplanting of \$350.0 million GF with VCBA and VPBA bonds
 - In addition, \$56.0 million in VCBA bonds are proposed to supplant nongeneral fund cash for three projects
 - Radford Heth Hall Renovation (\$7.1 million)
 - UVA Ackerman Rd Housing Renovation (\$8.9 million)
 - UVA Medical Center Renovation (\$40.0 million)
- \$26.2 million for equipment for buildings coming on-line this biennium
- \$10.0 million to supplement the Wallops Island Space Flight Facility
- \$8.4 million for public safety project supplements



Nongeneral Fund Supported Capital Projects

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

	<u>NGF \$ in millions</u>
9(c) Revenue Bonds	25.8
9(d) Nongeneral Fund Revenue Bonds	111.3
Nongeneral Funds	<u>71.6</u>
Total Nongeneral Funds	\$208.7



Other Projects

- Redirect 2008 Bond Package Funds for MHMR
 - Redirects \$18.5 million of the \$43.0 million appropriated to repair the Central Virginia Training Center for Community Housing
 - Community housing was provided preplanning funds in the bond package
 - Remaining funds to be used to address renovations and life safety issues
 - Redirects \$23.8 million of the \$23.9 million of the amount appropriated to repair the Southeastern Virginia Training Center for Community Housing
 - Community housing was provided preplanning funds in the bond package

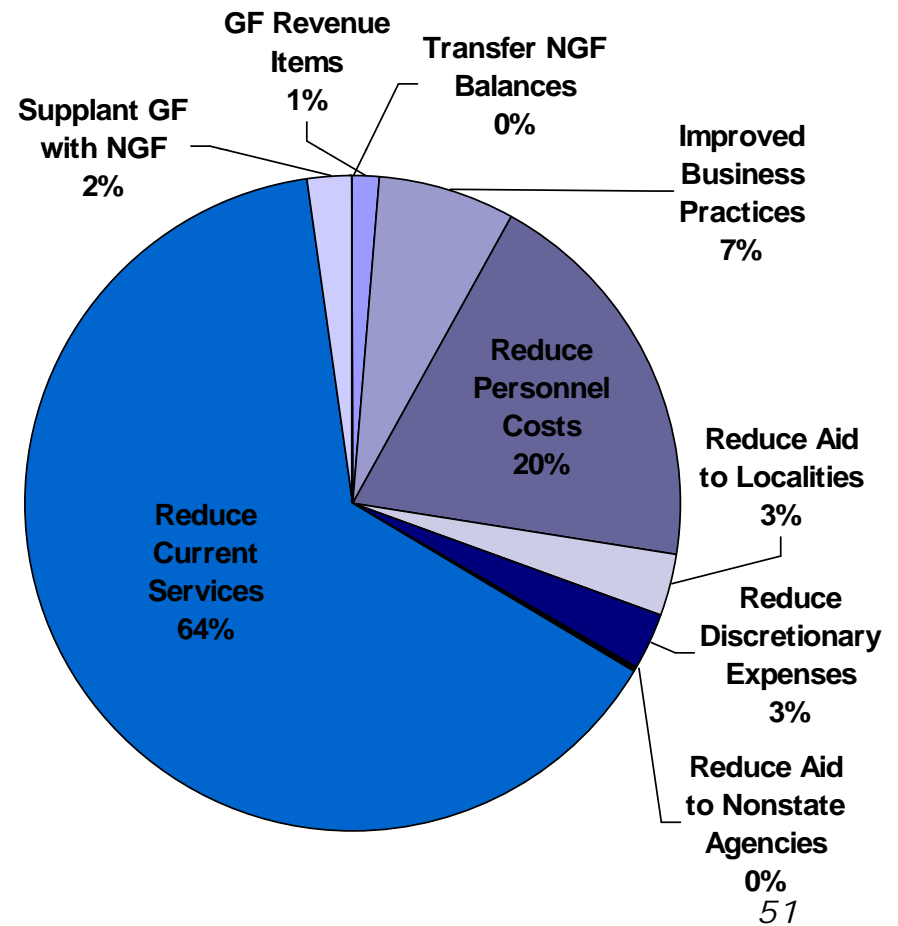
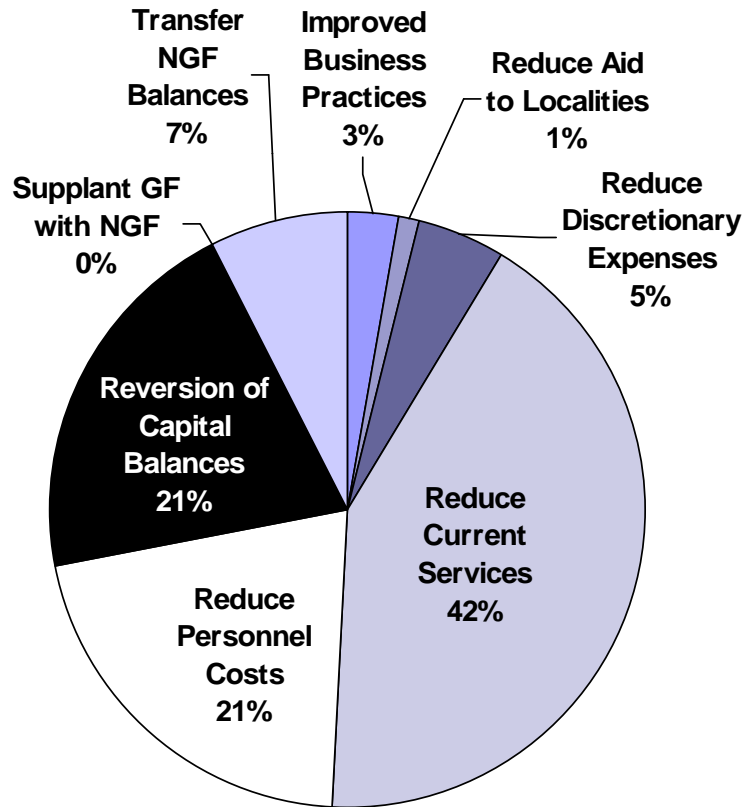


Public Safety

Public Safety Reductions

FY 2009: \$49.6 million

FY 2010: \$74.3 million





Public Safety Budget Proposals

- In total, general fund spending on Public Safety decreased \$46.1 million the first year and \$78.3 million the second year
- The largest new spending items:
 - \$3.0 million to expand Virginia's existing pretrial services programs
 - Purpose is to relieve population pressure on local and regional jails by reducing the number of persons held in jail while awaiting trial
 - Program staff use risk assessments to determine whether these persons will appear in court or potentially commit new crimes
 - Forecast indicates awaiting trial population could equal be 9,120 persons for FY 2010
 - Additional funding could reduce this population by 6,000 persons
 - \$3.0 million for inmate health care
- General fund reductions include:
 - Closure of two prisons, two field units, two detention centers, and 11 day reporting centers -- \$6.1 million the first year and \$31.0 million the second year;
 - Closing juvenile justice programs -- \$2.3 million the first year and \$3.9 million the second year; and
 - Reductions in HB 599 payments -- \$7.7 million the first year and \$14.4 million the second year



Significant Policy Actions

- The Governor proposes several policies designed to moderate the growth in the local and regional jail and state prison populations, including:
 - Permitting DOC to release non-violent offenders up to an additional 60 days before their scheduled release
 - Non-violent offenders are defined by reference to the commission of an “act of violence” as outlined in § 19.2-297.1, Code of Virginia
 - To be eligible for a full 90 days release, offenders must serve at least one full year in prison; consequently, their minimum sentence length must be at least 15.5 months
 - This policy could apply to 48.7 percent of DOC released prisoners (6,710) from both prison and jail (13,768 total releases) and would free up 835 prison beds and 364 local and regional jail beds by FY 2010
 - Currently, DOC may release all offenders up to 30 days prior to their scheduled release date. The 30-day policy affected about 11,650 of the 12,265 prisoners released in FY 2007
 - Additional parameters could be used to refine this change



Significant Policy Actions (Cont'd)

- Permitting DOC to establish a behavioral correction program in concert with the Virginia Supreme Court
 - Offenders eligible for participation in this program would be those sentenced to three or more years and prison and for whom the court has determined a need exists for alcohol or drug treatment
 - Judges would levy the appropriate sentence with the condition that the offender be placed in a therapeutic community-style substance abuse treatment program
 - This substance abuse treatment program must be at least 18 months in length
 - If DOC certifies an offender has successfully completed the substance abuse treatment program, then the court could suspend the remainder of the offender's sentence and release them to supervised probation
 - If the offender fails to complete the substance abuse program he or she would complete the original sentence
 - This proposal has an opportunity to free up additional prison beds
 - Example: Three-year sentence, but successful completion of substance abuse program allows release after 24 months
 - This program was proposed last year as “therapeutic incarceration”



Significant Policy Actions (Cont'd)

- The Governor does not include the state's share of the additional construction costs for Western Virginia Regional Jail
 - Language limits state's share of facility's cost to original estimate approved by Board of Correction in August 2005
 - All three construction bids apparently were greater than original projected cost of construction
 - DOC was notified about additional cost
 - Additional state share for facility equals \$11.3 million
- Similar additional construction costs have been approved by the Board of Corrections and funded



Other Actions

- Criminal Sentencing Commission to report a \$50,000 minimum impact for any legislation for which the agency cannot determine a fiscal impact
- The Board of Corrections to review standards for local and regional jails to determine if jail construction can be cheaper or services improved
 - \$1.0 million the first year and \$3.5 million the second year is included to staff new or expanded jail facilities
- The budget for State Police includes an additional \$1 million in nongeneral fund revenue derived from increasing the fees for criminal background checks for firearm purchases
 - The fee for these background checks would increase from \$2 to \$5
 - Currently, State Police must offset a portion of the costs for criminal background checks using general fund appropriations
 - Separate legislation is proposed to effectuate the fee increase



Technology



Technology Budget Proposals

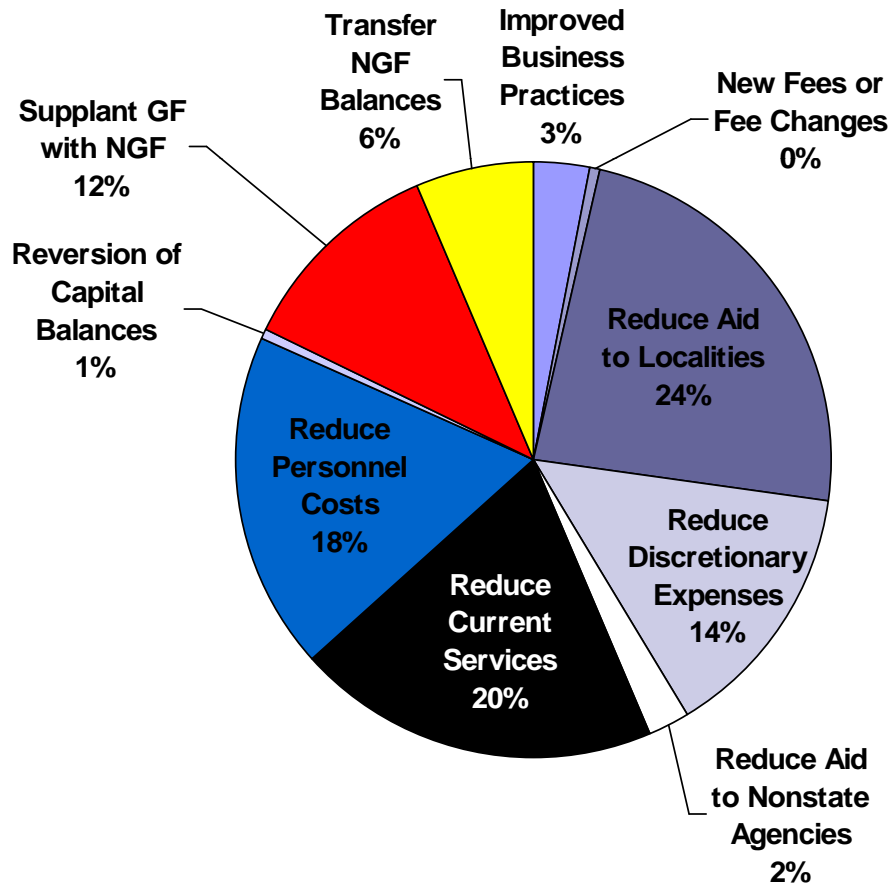
- In total, general fund spending on Technology decreased \$888,878 the first year and \$368,344 the second year
- Nongeneral fund spending decreased \$6.0 million the first year and \$4.2 million the second year
- Most significant policy actions:
 - Merger of Virginia Enterprise Applications Program into VITA
 - Includes only general fund spending item by transferring VEAP budget to VITA (\$1.1 million)
 - VEAP director assumes position as Deputy Chief Information Officer for Applications and control over VITA's Project Management Division, Procurement and Contracting Services, and Customer Account Management functions
 - VEAP staffing would increase from 3 FTE to 16 FTE
 - Transfer of \$6.0 million each year from Wireless E-911 Fund to support dispatch services in sheriff's offices



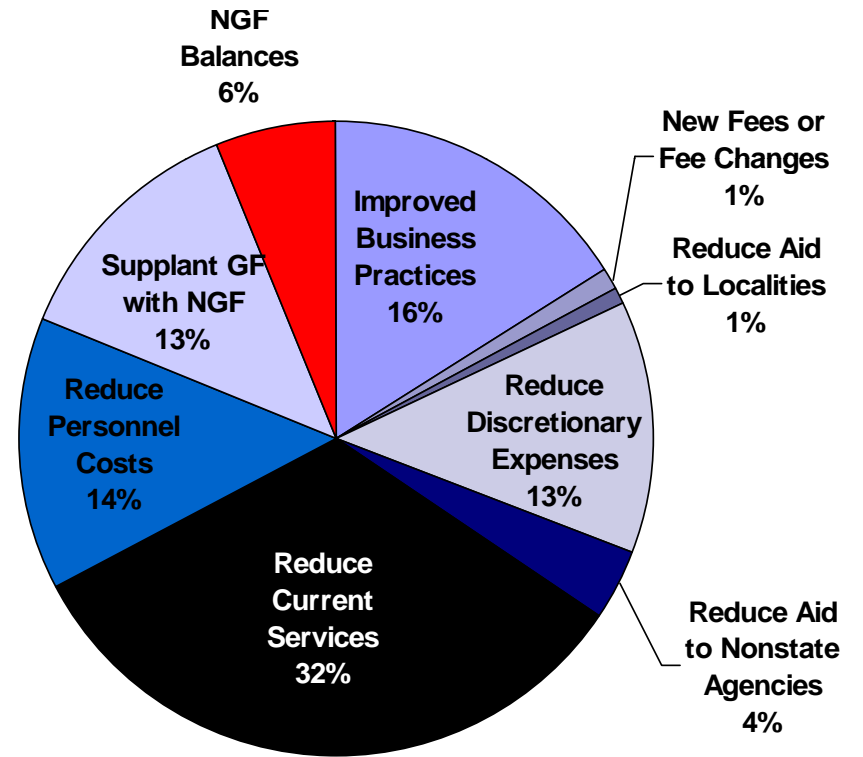
Natural Resources

Natural Resources Reductions

FY 2009: \$12.6 million



FY 2010: \$13.2 million





Natural Resources Budget Proposals

- In total, general fund spending on Natural Resources decreased \$10.1 million the first year and \$2.1 million the second year
- New spending includes:
 - \$20 million in the second year for the Natural Resources Commitment Fund to implement agricultural best management practices, including:
 - \$10.0 million from the general fund;
 - \$4.8 million in interest from prior WQIF deposits for nonpoint source pollution control; and
 - \$5.2 million from the WQIF Reserve Fund (deletes DCR's portion of fund)
 - Additional first year deposits to WQIF
 - \$1.1 million provided to DCR to control nonpoint pollution from all sources
 - \$476,700 provided to DEQ to upgrade wastewater treatment plants
- General fund spending is offset by total reductions of \$11.7 million the first year and \$12.3 million the second year
 - \$4.4 million from elimination of 59 positions in DEQ;
 - \$3.0 million in reduced state match for wastewater revolving loan fund;
 - \$2.2 million in reductions to state parks operations; and
 - about \$1.0 million in reductions for soil and water conservation districts




Significant Policy Actions

- Issuance of \$250 million in bonds for reimbursement of wastewater treatment project costs
 - Reimbursement mechanism originally authorized by the 2007 Session of the General Assembly
 - Bonds were to be issued only after all previous general fund appropriations for these upgrades had been exhausted
 - Slightly more than \$314 million was appropriated for these upgrades either by direct general fund infusions or the deposit of year-end general fund surpluses
 - As of June 30, 2008, \$228.0 million remained unspent
 - January 2009 cash balance is \$149.2 million
 - DEQ projects spending \$212.5 million during FY 2009 and \$193.3 million in FY 2010
 - Based on these assumed expenditures, a minimum of \$177.3 million in bonds is required this Session



Other Actions

- The competitive grants from the Litter Control and Recycling Fund are transferred to the general fund
 - \$100,000 each year is transferred to the general fund in Part 3 of the Appropriation Act
 - Competitive grants for litter and recycling education programs constituted about 20 percent of the fund's total proceeds
 - The remainder, which includes the non-matching distributions to localities, is unaffected
- Saltwater fishing license revenue is used to offset the costs of VMRC marine police operations
 - Revenue had been distributed to fishing organizations and other state agencies like nonstate agency grants



Commerce and Trade Agriculture and Forestry

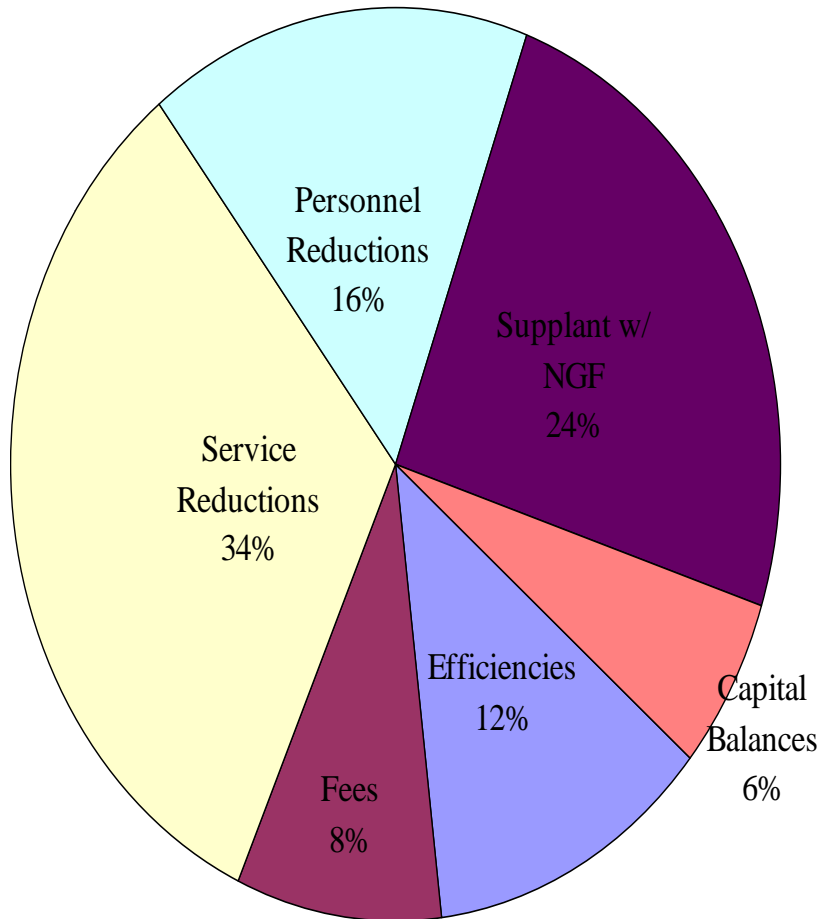


Agriculture & Forestry

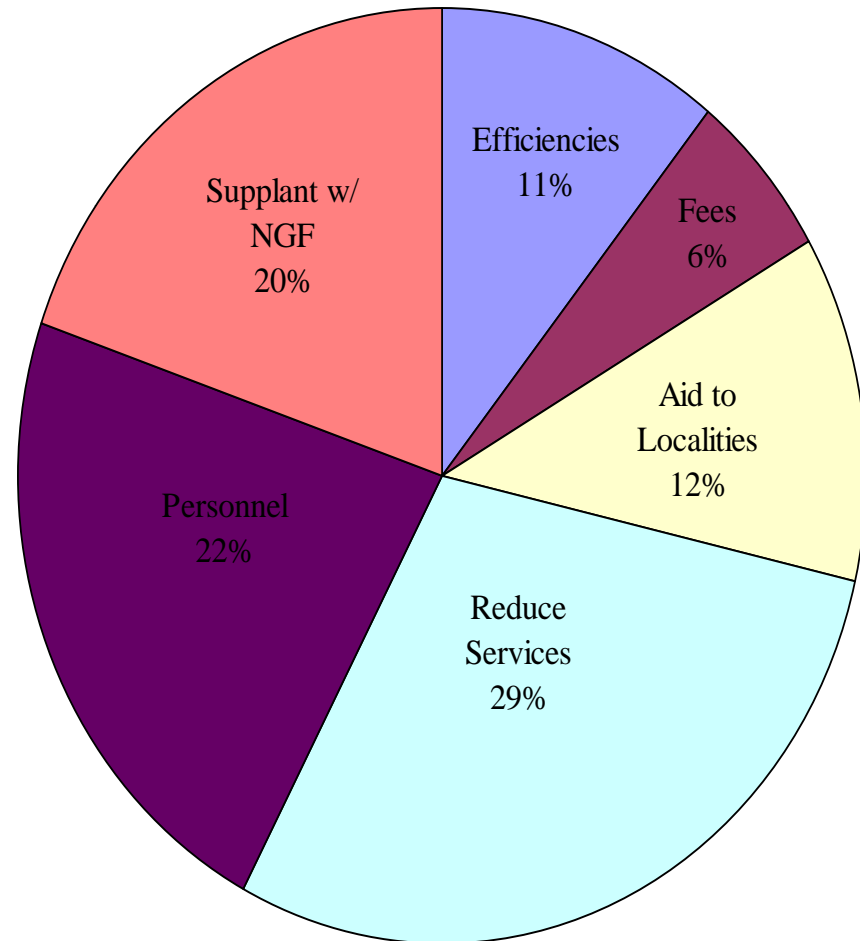
- Secretariat of Agriculture and Forestry savings total \$9.1 million GF (8.9%)
 - VDACS biennial reductions total \$4.9 million
 - Includes more than 60 separate actions and includes the elimination of 19 positions, 4 of which will result in layoffs
 - \$500,000 GF reduction in purchase of development rights matching grants
 - Eliminates \$150,000 the second year for hydrilla funding
 - Forestry biennial reductions total \$4.2 million
 - \$589,000 in savings is generated by consolidating the 6 regional offices into 3
 - \$1.0 million is saved by eliminating 23 positions, 5 of which will result in layoffs
 - Saves \$120,000 by reducing amounts provided to match industry funds for the reforestation of timberlands. Proposes to offset these amounts by increasing the fee charged to landowners from \$2 to \$4 per forest acre that is harvested

Agriculture & Forestry

FY 2009 Savings: \$3.7 million



FY 2010 Savings: \$5.5 million



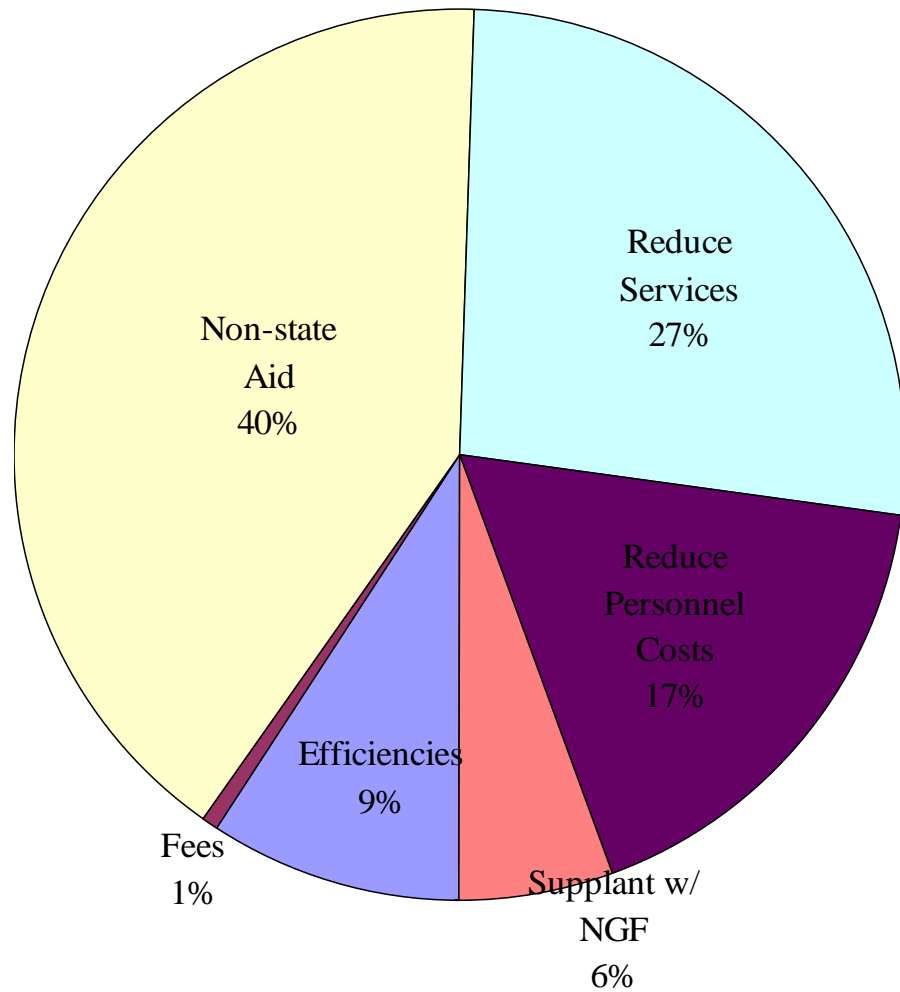


Commerce & Trade

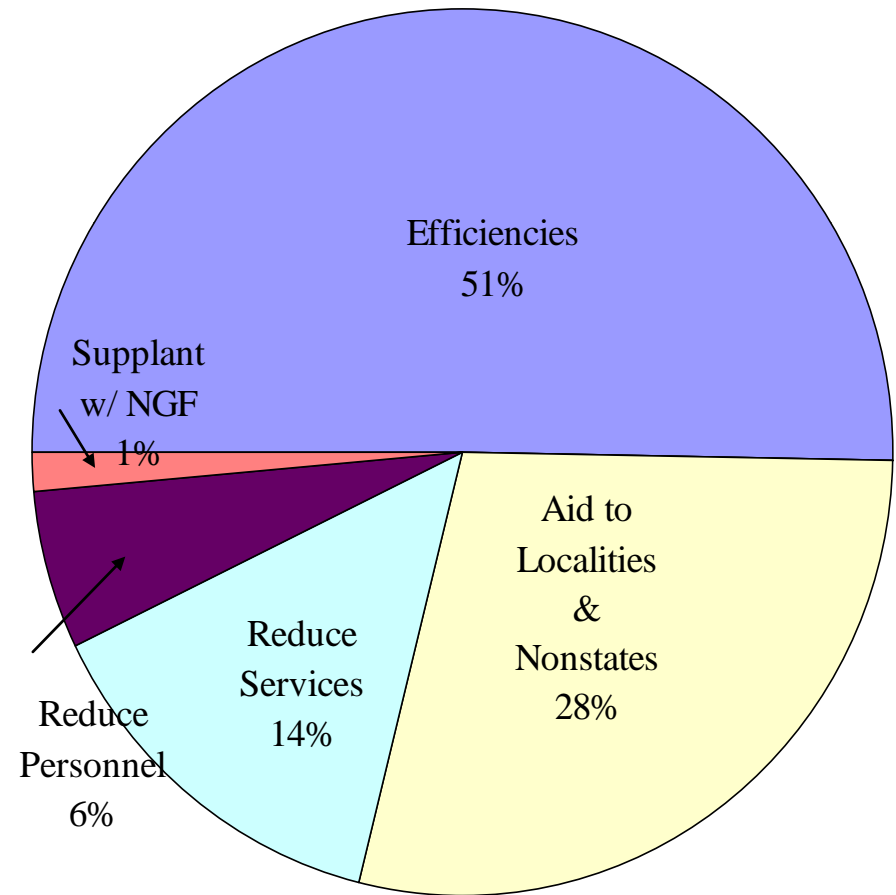
- Commerce and Trade amendments produce a net GF savings of \$17.6 million over the biennium
- Savings actions total about \$27 million, with major actions listed below:
 - \$10.3 million in reduced incentive grant payments (\$8.8 million that had been scheduled to Qimonda, \$1.5 million under VIP program)
 - \$1.6 million reduction each year to Indoor Plumbing program
 - \$1.1 million reduction in FY 2009 and \$2.25 million reduction in FY 2010 to Enterprise Zone Grants
 - Unspecified across-the-board reductions of \$1.0 million each year at VEDP and \$800,000 each year at VTA

Commerce & Trade

FY 2009 Savings: \$8.3 million



FY 2010 Savings: 19.0 million





Commerce & Trade

- Savings in Commerce and Trade offset by following new spending proposals:
 - \$5.0 million for Governor's Opportunity Fund in FY 2010
 - \$1.6 million in FY 2010 for operating costs of the Fort Monroe Federal Area Development Authority
 - \$2.0 million in FY 2010 for a new clean energy manufacturing incentive grant program at DMME
 - Separate authorizing legislation
- Number of new economic development initiatives with out-year costs to be considered in separate legislation
 - Mega-Projects: Major Employment and Investment Act – help finance site improvements for large projects
 - Virginia Investment Program cap increase – out-year costs
 - Extension of Retaliatory Tax Credit and Major Business Facilities Job Tax Credit– carries forward another 10 years



Transportation



Transportation

- HB 1600 amendments for transportation agencies reflect a biennial NGF reduction of \$670.1 million
- This reflects reduced growth in a number of transportation revenue sources, in particular motor vehicle titling taxes
- With some very minor exceptions, the budget does not include any transfers of transportation funds to the general fund to address the GF budget shortfall
 - Reduced authority for DMV to retain uninsured motorist fees
- The revenue reductions are contained in a single item in each agency and are not integrated into the specific programs.
 - There is no language specifying how the agencies will implement the reductions by program, roadway system or geographic area
- The proposed amendments include MEL reductions of 1,163 fulltime equivalent positions
 - All but 13 of the eliminated positions are at VDOT which is reducing its MEL from 9,500 to 8,350 by the end of the biennium



Employee Compensation and Benefits



Elimination of Salary Adjustments

- State Employee Compensation:
\$168.2 million GF reduction from eliminating 2 percent salary adjustments in both years for state employees, college faculty and state-supported local employees
 - Savings of \$43.6 million GF the first year and \$124.6 million GF the second year

Virginia Sickness & Disability Program

- VSDP – Budget assumes savings of \$28.4 million GF from policy changes assumed in the calculation of the contribution rates
 - FY 2010 rates are based on the June 30, 2008 valuation instead of the June 30, 2007 valuation
 - Assume administrative savings
 - Eliminate the long term care benefit included in the VSDP program

	<u>Savings in Millions</u>
Valuation Based on June 2008	\$19.6
Administrative Savings	0.7
Eliminate Long-Term-Care Benefit	4.8
Apply savings to Last 2 months of 2009 *	<u>3.3</u>
Total Savings	\$28.4

* Savings from 2008 valuation and administrative savings are assumed for FY 2009



VSDP Long-Term Care Benefit

- Benefit assists in paying for nursing home care, assisted living facility care, hospice care or community based care
- Provides a maximum daily benefit of \$96 (with a lifetime maximum of \$70,080)
- Budget includes language stating current employees may opt to continue coverage at their own expense



Retiree Health Care Credit/Group Life Insurance

- Budget proposes revised contribution rates based on the June 30, 2008 valuation for two other VRS administered programs
 - Retiree Health Care Credit – \$4.1 million GF in savings
 - Group Life – \$0.7 million GF in savings



Line of Duty Act

- Fund benefit on a pay-as-you-go basis, savings of \$2.9 million in FY 2009 and \$2.6 million in FY 2010
- Charge cost of administering the benefit from the Line of Duty Fund instead of the Department of Account budget
 - GF reduction of \$100,000 in FY 2009 and \$250,000 in FY 2010



Employee Health Insurance Program

- Introduced budget does not assume an employer or employee premium increase
- Based on the actuarial estimate, employer premiums would increase 10.70% in FY 2010
 - An estimated cost of \$37.6 GF million in FY 2010
- Plan changes are proposed to mitigate approximately two-thirds of the cost (\$25.5 million GF)
 - Much of this cost is shifted to the employees through increased cost sharing
- The remaining one-third of the cost is absorbed through additional excess balances in the Health Insurance Fund (approximately \$12.1 million GF)
- The budget does assume a 3% increase in the premiums for pre-Medicare retirees

Employee Health Insurance

Health Insurance Plan Cost Sharing Changes (COVA CARE)

	Current	Proposed	Cost Shift from GF to Employees
Co-Pay Pharmacy – Tier 2	\$20	\$30	(\$1.1)
Co-Pay Pharmacy – Tier 3	\$35	\$45	Included above
Co-Pay Pharmacy – Tier 4	N/A	\$60	(\$1.0)
Co-Pay for Specialist (excluding PT)	\$35	\$45	(\$2.7)
Co-Pay for Behavioral Health	\$35	\$25	\$0.04
Co-pay for Inpatient Admission	\$300	\$400	(\$0.7)
Co-pay for Outpatient Facility	\$100	\$150	(\$1.6)
Annual Deductible (1 Person/2 or More)	\$200/\$400	\$250/\$500	(\$1.8)
Annual Out of Pocket Maximum	\$1,500/\$3,000	\$1,750/\$3,500	(\$1.5)
Co-insurance for Other Services (i.e. Lab, shots, x-rays)	10%	20%	(\$3.7)

* Estimated \$ in millions



Employee Health Insurance Program

- Proposed benefit plan changes include
 - Require Mail Order for Maintenance Drugs (savings of \$3.5 million GF)
 - Eliminate Coverage for Non-Sedating Antihistamines (savings of \$1.0 million GF)
 - Eliminate Coverage for Surgery for Morbid Obesity (savings of \$5.3 million GF)
- Budget assumes \$1.8 million GF in administrative savings



Workforce Transition Act

- Includes language modifying the manner in which WTA costs are handled
 - The cost for enhanced retirement benefits shall be built into employer contribution rates as opposed to the effected agency making a direct payment to the VRS
- Includes \$438,208 GF in the second year to begin pre-paying the expected increase in contribution rates from the inclusion of WTA cost in the rates



General Government

General Government General Fund Actions

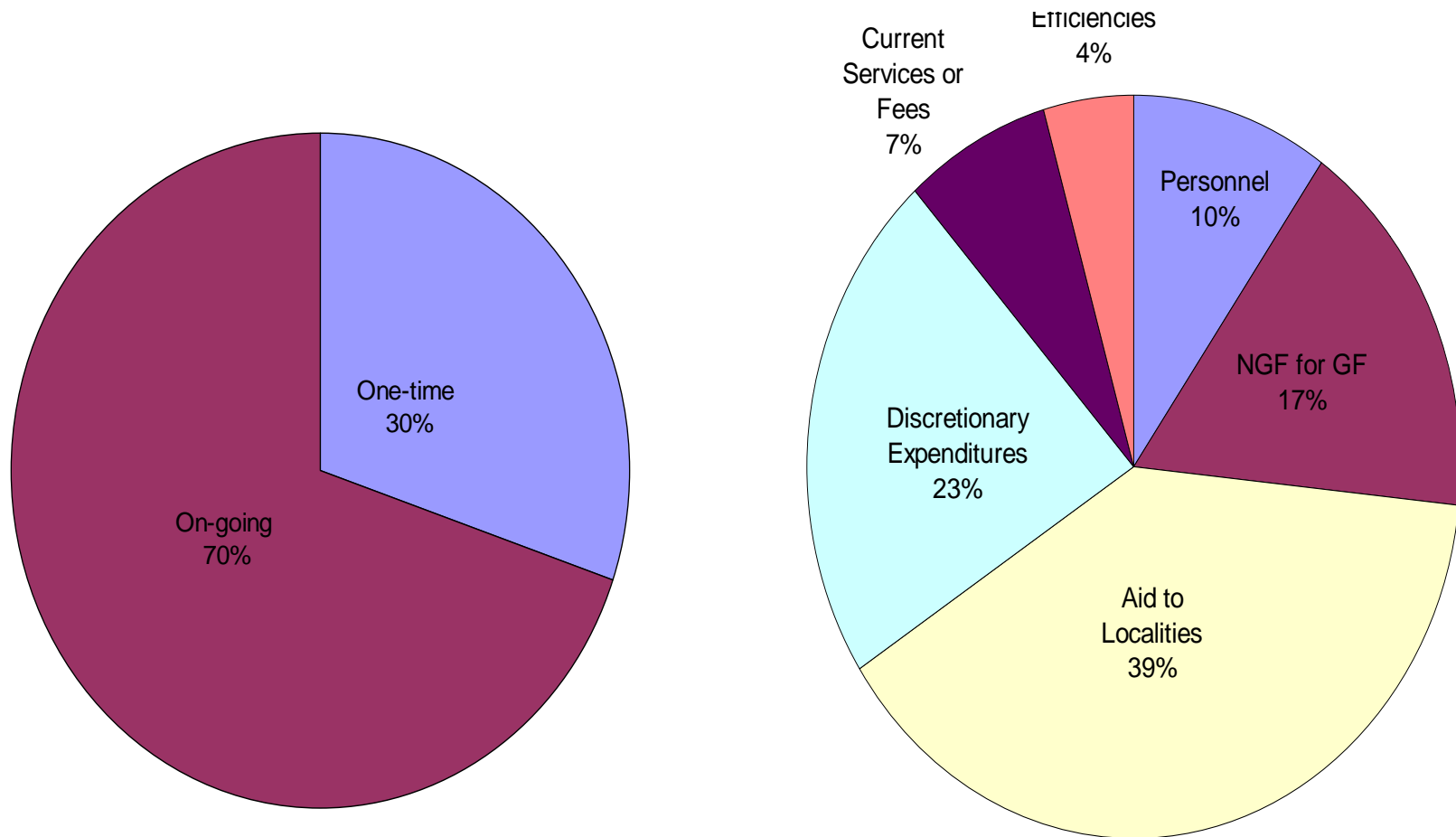
(\$ in millions)

	Spending Actions	Savings Actions
Judicial	\$12.1	(\$5.0)
Executive Offices	0.0	(7.0)
Administration	2.5	(65.1)
Finance	<u>13.1</u>	<u>(35.4)</u>
Total	\$27.7	(\$112.5)

In addition, actions included within General Government are estimated to result in additional revenues of \$38.4 million

General Government Reductions

Reductions total \$112.5 million within the General Government Areas





Judicial Branch

■ Spending Actions

- Includes \$10.8 million GF in additional funding for the Criminal Fund (\$5.4 million each year)
- Includes \$1.2 million GF in additional funding for the Involuntary Mental Commitment Fund (\$610,076 each year)

■ Savings Actions

- Judicial budget reduction plan includes \$5.0 million in GF savings (\$2.0 million in the first year and \$3.0 million in the second year)
 - Assumes 3 layoffs
 - \$2.4 million in savings from keeping open positions vacant 90 days
 - \$0.9 million in savings assumed within the Indigent Defense Commission



Executive Offices

■ Savings Actions

- Savings within the executive offices total \$7.0 million
- \$2.4 million savings within the Governor's office
 - Plan includes 2 layoffs
- \$4.3 in savings within the Attorney General's office
 - \$3.2 million in savings from implementing a hiring freeze
 - Plan includes 2 layoffs

- Budget also proposes to merge the Enterprise Applications Office into VITA



Administration

- Spending Actions

- Includes \$2.5 million GF in funding for staffing for new jails

- Savings Actions

- Reduces funding for constitutional officers' offices by \$43.5 million GF in FY 2010
 - 10% reduction for Commissioners of Revenue, Treasurers, Directors of Finance, and the Clerk of Circuit Courts
 - 7% reduction for Sheriffs and Commonwealth's Attorney
 - \$12.0 million in savings from the use of E-911 funds to support dispatcher positions
 - \$1.5 million in savings from one time use of technology trust fund revenue to support circuit court clerks offices
 - \$1.2 million in savings at DGS from using non general funds to cover procurement administration and oversight
 - The remaining \$7.3 million in savings is realized through a variety of reductions included throughout the agencies
 - Assumes 2 layoffs (1 each DGS and the Human Rights Council)
 - Budget assumes \$6.0 million in increased revenues from changing the distribution of excess fees collected by the clerk of circuit courts
 - Increases the state share from 1/3 to 2/3s



Merging Agencies

- Merges the Department of Employment Dispute Resolution into the Department of Human Resources Management
- Merges the Human Rights Council into the Department of Labor and Industry



Finance

■ Spending Actions

- \$2.1 million for the Tax Department to consolidate administrative staff at the Main Street Center
- \$5.8 million for the Tax Department to hire 55 new tax compliance audit staff
 - The budget assumes \$22.9 million in additional revenue from this action (\$1.2 million in FY 2009 and \$21.7 million in FY 2010)
- \$3.5 million to adjust debt service funding at the Treasury Board
- \$1.5 million in increased funding for banking fee services
 - Increased fees will be incurred from the investment of compensating balances which is expected to result in \$2.6 million in additional revenue in the second year



Finance

■ Savings Actions

- \$3.5 million reduction at the Tax Department for reduced information technology cost
- Savings of \$5.5 million at DOA from funding the Line of Duty Act on a pay as you go basis
- \$1.4 million in savings from a reduction in school efficiency review studies at DPB
- \$18.3 million in savings through actions at the Treasury Board
- The remaining \$5.7 million in savings is realized through a variety of reductions included throughout the Finance agencies
- Assumes 2 layoffs at the Tax Department