



# **Proposed Amendments to the 2014-2016 Biennial Budget: House Bill 1400**

House Appropriations Committee

**January 14, 2015**





# Revenue Forecast

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# FY 2014 Close & the August Interim Forecast

- A large revenue decline in May pushed 2014 fiscal year revenues into negative territory, and resulted in collections \$438.0 million short of the forecast
  - The shortfall was driven by final non-withholding payments, which fell by 24%
- As a result, Governor McAuliffe presented a revised revenue forecast to the Joint Money Committees on August 15<sup>th</sup> that was significantly lower than assumed in Chapter 2 and reflected:
  - The impact of the FY 2014 shortfall on the FY 2015 revenue base
  - The expectation that Virginia will continue to underperform the Nation
  - Continued sluggish job and wage and salary growth, particularly in Northern Virginia
- The revised forecast reduced general fund revenues by \$2.0 billion for fiscal years 2015 and 2016, and assumed growth of 2.7% each year
  - Growth rates in Chapter 2 were 5.2% in FY 2015 and 4.1% in FY 2016

# Fall Revenue Forecasting Process

- Although the FY 2014 shortfall triggered the revenue reforecast in August, and Chapter 3 was not adopted until November, § 2.2-1503 of the Code requires the Governor to prepare a forecast of the economic activity in the Commonwealth each fall
- The process was repeated and the Joint Advisory Board of Economists (JABE) met again in October and the Governor's Advisory Council on Revenue Estimates (GACRE) – comprised of business leaders and House and Senate leadership – met in November to provide input on likely economic activity levels
- The consensus of both groups was that the August interim forecast – which contained explicit reductions in Virginia's job and income growth rates – was the most likely scenario
- The revised general fund revenue forecast contained in HB 1400 remains unchanged from the August forecast for FY 2015, and contains only a modest positive adjustment of \$34.5 million for FY 2016

# FY 2014-2016 Biennial Forecast: December Revisions

- The economic-based GF growth rates (excluding transfers) assume increases of 2.8% in FY 2015 and 2.6% in FY 2016
  - When the Governor's proposed tax policy adjustments are factored into the forecast, the revenues reflect increases of 3.1% each year
- Total general fund resources – which includes both assumed policy adjustments and transfer actions – results in a 3.6% expansion of resources in FY 2015 and an additional 2.6% in FY 2016
- On a dollar basis, the revisions contained in HB 1400 reflect increases of \$98.4 million in FY 2015 and \$151.0 million in FY 2016 compared to Chapter 3 and provide \$35.6 billion in GF resources over the biennium

# December GF Revenue Forecast: FY 2015-16

Source	FY 2015 Forecast	FY 2015 % Growth	FY 2016 Forecast	FY 2016 % Growth
Withholding	\$10,787.9	2.9%	\$11,140.1	3.3%
Nonwithholding	\$2,685.2	6.3	\$2,751.6	2.5
Refunds	(\$1,827.8)	4.1	(\$1,855.6)	1.5
<b>Net Individual</b>	<b>\$11,645.3</b>	<b>3.5%</b>	<b>\$12,036.1</b>	<b>3.4%</b>
Sales	\$3,197.8	4.3	\$3,292.0	2.9
Corporate	\$757.9	0.1	\$771.6	1.8
Recordation	\$318.3	2.4	\$318.3	0.0
Insurance	\$334.5	4.4	\$326.8	(2.3)
All Other	\$673.6	(4.2)	\$714.5	6.1
<b>Total GF Revenue</b>	<b>\$16,927.4</b>	<b>3.1%</b>	<b>\$17,459.3</b>	<b>3.1%</b>
ABC Profits	\$77.3	7.0	\$80.2	3.8
Sales Tax (0.375%)	\$348.1	4.2	\$359.3	3.2
Transfers Per Act	\$208.1	58.3	\$124.6	(40.1)
<b>Total Transfers</b>	<b>\$633.5</b>	<b>17.8%</b>	<b>\$564.1</b>	<b>(11.0)%</b>
<b>Total General Fund</b>	<b>\$17,560.9</b>	<b>3.6%</b>	<b>\$18,023.4</b>	<b>2.6%</b>

Totals assume adoption of Governor's proposed tax policy changes.



# How Did We Close the Budget Gap in Chapter 3?

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# Closing the Budget Gap in Chapter 3

	FY 2015	FY 2016	Biennium
<b>Shortfall as of August 15, 2014</b>	<b>(\$1,297.3)</b>	<b>(\$1,135.3)</b>	<b>(\$2,432.6)</b>
<b>Ch. 2 Actions to Address Shortfall</b>			
Appropriated Revenue Reserve	\$480.0	\$362.5	\$842.5
Assumed Revenue Stabilization Fund	\$470.0	\$235.0	\$705.0
Unappropriated Balance	\$5.4	\$0.4	\$5.8
<b>Subtotal:</b>	<b>\$955.4</b>	<b>\$597.9</b>	<b>\$1,553.3</b>
<b>Remaining Balance Addressed in Ch. 3</b>	<b>(\$341.9)</b>	<b>(\$537.4)</b>	<b>(\$879.3)</b>
Item 471.10 – State Agency Savings	\$92.4	\$100.0	\$192.4
Item 471.20 – Higher Education Savings	\$45.0	\$45.0	\$90.0
Item 471.30 – Local Aid Savings	\$30.0	\$30.0	\$60.0
Item 471.40 – Specified Savings and “Front Page” Resource Adjustments	\$124.7	\$90.4	\$215.1
<b>Remainder: Unspecified Savings (471.40 and Reversions) to Be Addressed in HB 1400</b>	<b>\$49.8</b>	<b>\$272.0</b>	<b>\$321.8</b>





# How Does HB 1400 Propose to Address the Reductions Required by Chapter 3?

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# Required State Agency Savings in HB 1400

- Item 471.10 of Chapter 3 called for state agency savings of \$92.4 million in FY 2015 and \$100.0 million in FY 2016
  - While Chapter 3 assumed the adoption of state agency savings, it did not detail those actions
  - Instead, the Governor was given time to craft detailed proposals based on plans agencies had submitted to him last fall, with the requirement that these final plans be included in the amendments proposed in HB 1400
  - Governor had called for 5% and 7% reduction plans for the two fiscal years, and Chapter 3 required actions to achieve approximately 4.3% in annual savings
- Table below outlines how Governor addressed required state agency savings in HB 1400 (beginning on page 441)

Strategies to Achieve Agency Reductions Required by 471.10	FY 2015	FY 2016
Item 471.10 – GF agency reductions	\$60.1	\$90.5
Item 3-1.01 zz – Nongeneral fund supplants and balance sweeps	\$32.2	\$1.5
Miscellaneous revenue actions and property sales (“front page” and language detailed in 3-1.01)	\$1.3	\$21.1
<b>TOTAL</b>	<b>\$93.6</b>	<b>\$113.1</b>

# Fees Proposed to Address Portion State Agency Reductions in 471.10

Agency	Proposed Fee/Fee Increase	FY 2015	FY 2016
Health Department	Increase annual inspection fees from \$40 to \$285		\$6,878,620
DBHDS	New licensing fee for local service providers	\$352,022	\$947,000
DCR	Increases several state park fees		\$870,144
VMRC	Increase recreational saltwater fishing licenses		\$550,000
VDACS	Institute a \$10 per device weights and measures fee		\$500,000
VDACS	Switch to a tiered fee based on square footage, ranging from \$40 to \$375		\$400,000
DGS Consolidated Labs	Increase commercial lab certification fees		\$250,000
DSS	Increase child protective services registry checks from \$7 to \$10		\$225,000
TAX Department	Institute a \$12 fee for each roll of tobacco stamps		\$221,568
Health Department	Increase fee for pathology reports		\$200,000
DBHDS	Increase background check fee from \$13 to \$23	\$92,056	\$138,024
DBHDS	Institute a \$15 fee for the on-line training system	\$58,500	\$117,000
DGS Consolidated Labs	Charge Virginia Lottery for entire cost of lab testing		\$89,250
DSS	Increase fee for national background checks from \$50 to \$60		\$82,000
DEQ	Establish a Class A Biosolids fee of \$3.75 per ton	unknown	unknown
<b>TOTAL</b>		<b>\$ 502,578</b>	<b>\$ 11,468,606</b>

# Higher Education and Local Aid Savings

## Higher Education

- Item 471.20 of Chapter 3 contained higher education reductions of \$45.0 million each year
  - Reductions taken against the E & G programs only
    - Exempted research, financial aid, Cooperative Extension and VIMS
  - Not an across-the-board reduction against the GF
  - Target reflects each institution's in-state/out-of-state mix and revenue capacity
- These savings are spread to the respective agencies in HB 1400

## Local Aid

- Item 471.30 of Chapter 3 contains savings from state aid to local governments of \$30.0 million each year
  - Consistent with strategies utilized by Governors Kaine and McDonnell, localities are given the flexibility to identify which programs to reduce to achieve the target
  - Targets are distributed among localities on a pro rata share of total local aid received
- No substantive change was made in HB 1400

# Remaining Savings Required by Chapter 3

- The last reversion clearing account contained in Chapter 3 – Item 471.40 (Miscellaneous) included two pots of savings
- The first group, relating to a series of balance reversions, transfers and fund swaps that were detailed within Item 471.40 is now spread to the appropriate Items in HB 1400 (technical adjustments)
  - Examples of these include adjustments relating to Lottery and Literary Fund forecast changes, FY 2014 unobligated balances (including legislative and judicial balances) and Treasury Board savings
- The remainder, \$49.8 million in FY 2015 and \$272.0 million in FY 2016 (biennial total of \$321.8 million), was left to be addressed in HB 1400



# Closing the Remaining Gap: Additional Savings Proposals in HB 1400

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# Majority Additional Savings in HB 1400 Resulted from Forecast Adjustments

- Following the passage of Chapter 3, and absent any further adjustments to the revenue forecast, the Governor was left with \$321.8 million in additional savings to achieve
- In total, about \$375.0 million in additional budgetary savings were identified
- The vast majority (about \$313.0 million) were generated by downward adjustments in forecasted GF spending requirements for Medicaid and K-12 public education and the use of literary fund for teacher retirement
  - Medicaid forecast (utilization and inflation) adjustments generated GF savings of \$216.0 million over the biennium
  - K-12 technical adjustments based on updated student enrollments and participation, sales tax forecast adjustments and retirement contribution cost calculations reduced the state portion of K-12 costs by \$65.9 million over the biennium
  - \$35.4 million in Literary Fund proceeds were used for teacher retirement

# Other Resource Adjustments in HB 1400

- Other targeted savings totaling \$15.7 million in FY 2015 and \$11.5 million in FY 2016 were generated through Part 3 actions capturing balances from a number of nongeneral fund sources
  - \$4.5 million in ABC profits transfer
  - \$4.3 million in reduced transfers to the game protection fund
  - \$4.1 million from excess balances in the VITA internal service fund
  - \$2.4 million from DEQ's underground storage tank fund
- Additional adjustments to the revenues total \$58.2 million, the largest of which reflects the forecast revision recommended by GACRE, totaling \$34.0 million in FY 2016



# Reconciliation: HB 1400 Savings

(\$ in millions)	FY 2015	FY 2016	Biennium
Undesignated Savings Required by Chapter 3	\$49.8	\$272.0	\$321.8
Savings Identified in HB 1400	\$226.6	\$167.7	\$394.3
<b>Balance After Savings Plans</b>	<b>\$176.8</b>	<b>(\$104.3)</b>	<b>\$72.5</b>
Technical Adjustments to Balance & Transfers*	(\$61.3)	(\$2.4)	(\$63.7)
Revenue Forecast Revisions	\$10.9	\$47.3	\$58.2
<b>Balance after Savings &amp; Resource Adjustments</b>	<b>\$126.4</b>	<b>(\$59.4)</b>	<b>\$67.0</b>

Note: \$51.4 million of adjustments to balances was offset by a general fund reduction of a like amount in Medicaid spending in FY 2015. In addition, total prior year balances were reduced by \$7.75 million to restore funding to the Governor's Opportunity Fund.

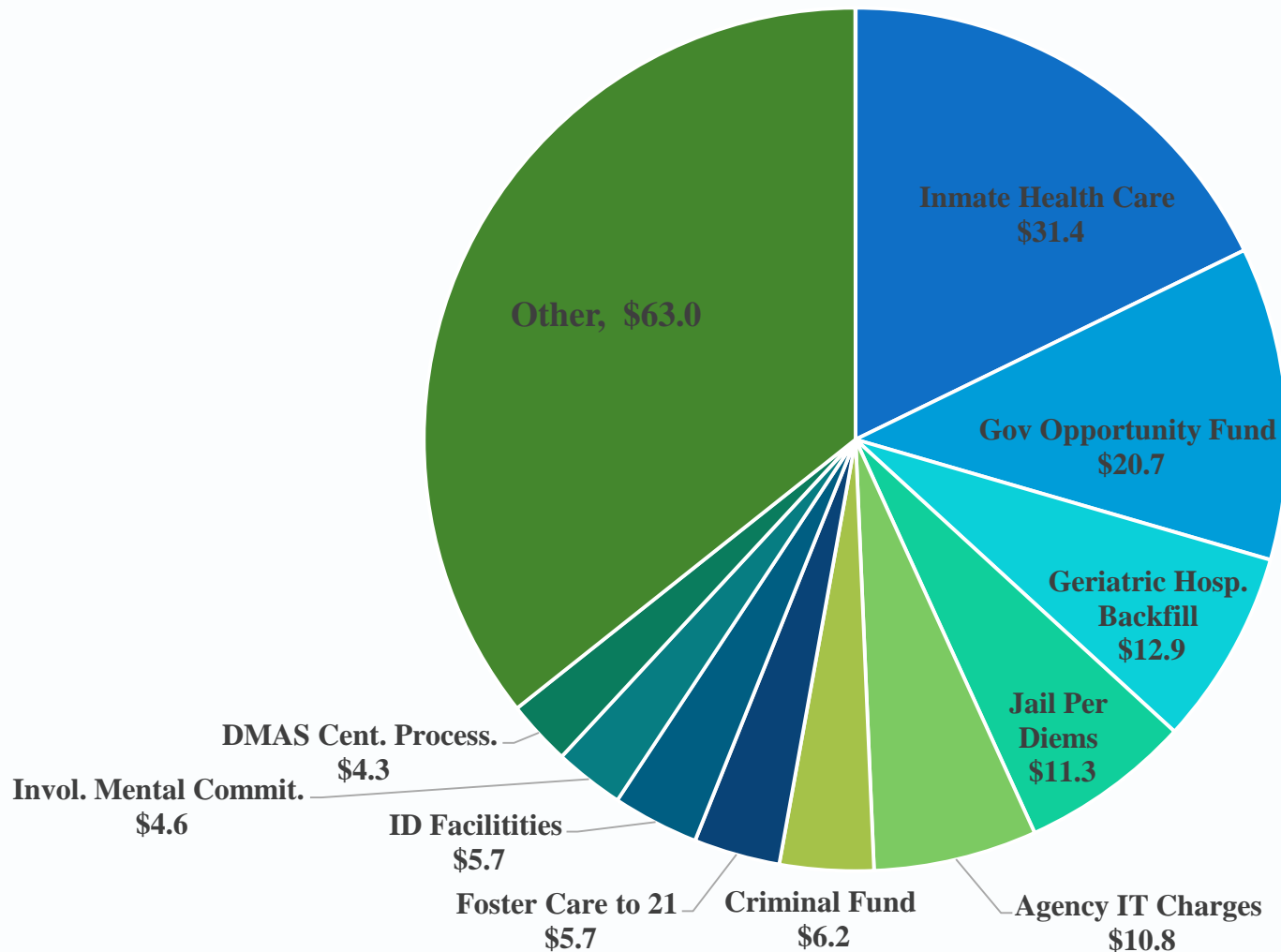
Adjustments to balances relate to the capturing of unspent but appropriated prior year general fund amounts. Transfers relate to the shifting of nongeneral fund resources to the general fund.

# Spending Proposals in HB 1400

- Proposed spending amendments included in HB 1400 total \$176.6 million
  - Staff review of the proposals indicates that about \$69.7 million of the proposed spending is discretionary in nature
  - The remaining \$106.9 million reflects required spending increases, the largest of which are in the areas of public safety and health and human resources
- Chart on the following page outlines the 10 top spending proposals, totaling \$113.6 million, or about 2/3 of the requested spending
- When the new spending proposals were balanced against the identified savings, this resulted in a resource gap
- In HB 1400 the Governor proposes to bridge that gap through the use of tax policy adjustments

# 10 Spending Items Account for 2/3 of Increased Spending

(\$ in millions)



# Reconciliation: HB 1400 Savings/Spending

(\$ in millions)	FY 2015	FY 2016	Biennium
Balance after Savings & Resource Adjustments	\$126.4	(\$59.4)	\$67.0
Proposed Mandatory Spending	\$46.1	\$60.8	\$106.9
Proposed Discretionary Spending	\$14.0	\$55.7	\$69.7
Remainder/Gap	\$66.4	(\$176.0)	(\$109.6)

Note: Proposed spending does not include the \$118.0 million GF over the biennium that would be required to implement the Governor's "Healthy Virginia" initiative. These expenditures were assumed as part of the Medicaid Forecast revision.

# Tax Policy Adjustments Assumed in HB 1400

(\$ in millions)

Proposed Tax Policy Changes	FY 2015	FY 2016	Biennium
<p><b>Limit Coal Employment/Production Tax Credit</b> Limits the credit amount that can be claimed on each annual tax return to \$500,000 and provides a five-year carryover for unused credits</p>	\$0.0	\$14.7	\$14.7
<p><b>Limit Coalfield Employment Tax Credit</b> Lowers the credit from \$3.00 per ton of coal to \$2.00 and limits the credit amount that can be claimed on each annual tax return to \$500,000; extends the period for claiming unused credits from 10 years to 12 years for credits already earned, and prospectively establishes a five-year carryover for unused credits</p>	\$0.0	\$5.2	\$5.2
<p><b>Reduce Long Term Care Deduction</b> Reduces the amount of the income tax deduction from 100 percent of annual premium payments to 50 percent</p>	\$0.0	\$9.4	\$9.4
<p><b>Limit Land Preservation Tax Credit</b> Limits the credit amount that can be claimed on each annual tax return to \$20,000 for a single filer and \$40,000 for joint filers and extends the period for claiming unused credits from 10 years to 13 years</p>	\$0.0	\$22.4	\$22.4

Note: All tax policy adjustments enumerated on this page will be introduced as stand-alone legislation.

# Tax Policy Adjustments Assumed in HB 1400

(\$ in millions)

Proposed Tax Policy Changes	FY 2015	FY 2016	Biennium
<b>Sales Tax Holidays on Same Date in August</b> Conducts the three existing sales tax holidays (school items, energy-efficient products and hurricane preparedness products) on the same three days in August of each year	\$1.6	\$1.0	\$2.6
<b>Online Travel Companies Sales Tax on Retail Price</b> Requires that the sales tax and local transient occupancy tax paid on hotel and motel accommodations be remitted on the basis of the retail sales price to the customer, as opposed to the discounted wholesale price paid by accommodation intermediaries	\$0.0	\$1.7	\$1.7
<b>Repeal Subtraction for Gain on Sale of Land</b> Repeals income tax subtraction from gain on sale of land devoted to open-space	\$0.0	\$0.5	\$0.5
<b>Reduce Accelerated Sales Tax Threshold</b> Reduces the threshold for remittance of the June accelerated sales tax from taxable sales of \$26.0 million to taxable sales of \$2.5 million	\$39.2	\$18.6	\$57.8
<b>Total Tax Policy Adjustments</b>	<b>\$40.8</b>	<b>\$73.5</b>	<b>\$114.3</b>

Note: With the exception of changes to AST contained in the budget, all tax policy adjustments enumerated on this page will be introduced as stand-alone legislation.

# Reconciliation: HB 1400 Savings/Spending

(\$ in millions)	FY 2015	FY 2016	Biennium
Balance after Savings & Resource Adjustments	\$126.4	(\$59.4)	\$67.0
Proposed New Spending	\$60.0	\$116.6	\$176.6
Remainder/Gap	\$66.4	(\$176.0)	(\$109.6)
Proposed Tax Policy Adjustments	\$40.8	\$73.5	\$114.3
Balance After Tax Policy Adjustments	\$107.2	(\$102.5)	\$4.7
Ch. 3 Unappropriated Balance	\$15.3	(\$12.4)	\$2.9
<b>Ending Balance - HB 1400 as Proposed</b>	<b>\$122.5</b>	<b>(\$114.9)</b>	<b>\$7.6</b>

# What Happens If Revenues Exceed the FY 2015 Forecast ?

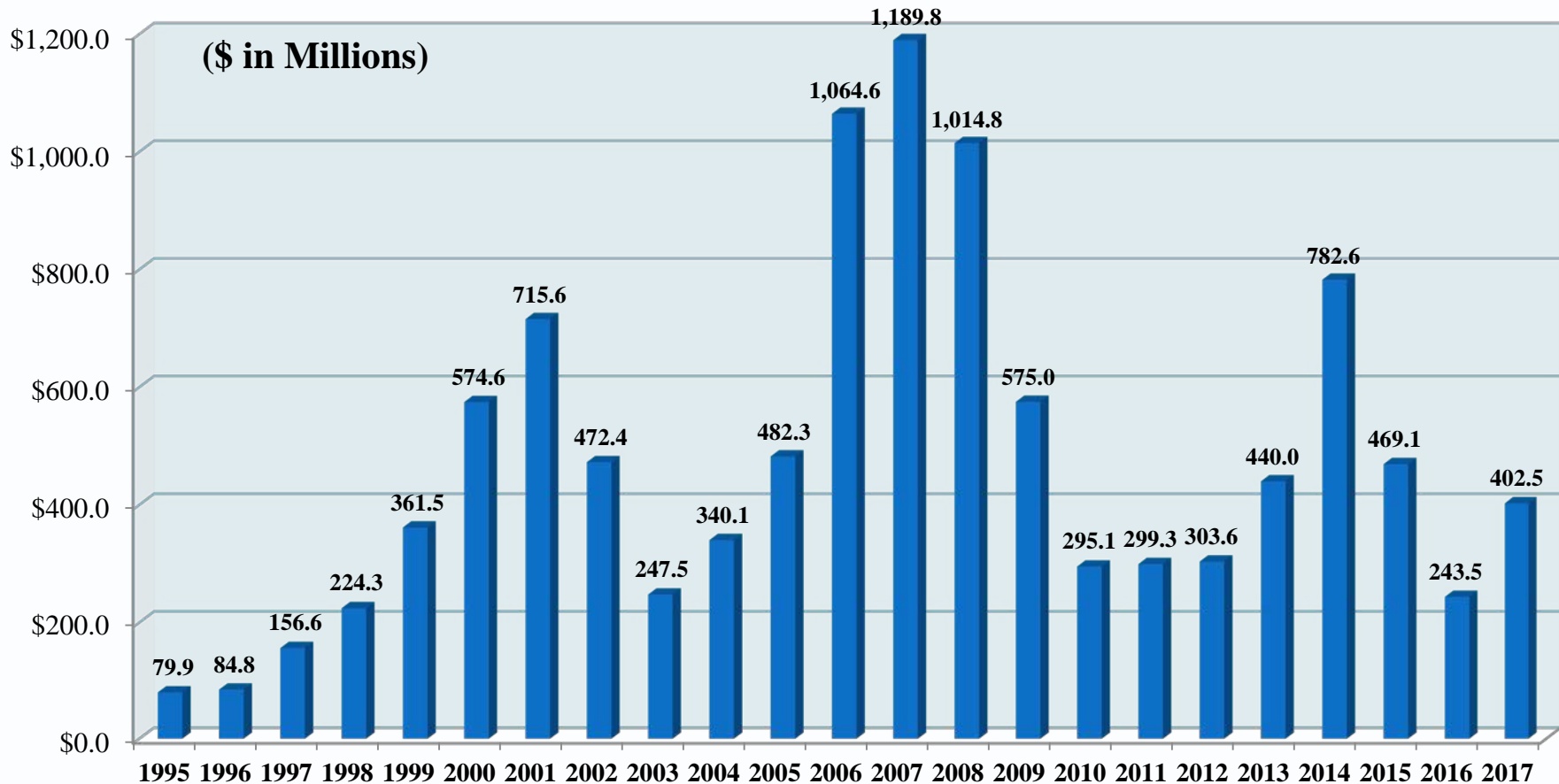
- While the consensus among the members of the Joint Advisory Board of Economists and GACRE was that current economic conditions did not merit any changes to the fundamentals underpinning the revenue forecast, the forecast was considered to have a greater upside than downside potential
- Through December, revenues grew 6.8% compared to a forecast of 3.1% growth. The year to date growth rate declined every month of the year through November, before increasing substantially in December
  - November collection growth was only 1%
  - December collections grew 13.1%
- Over the first 6 months of the year, 48.4% of the total GF revenue estimate had been collected, or about 1.2% ahead of the 15 year average
  - If the growth rate mirrors the forecast for the remainder of the year, this would result in revenues exceeding the forecast by \$274.2 million
- The Mid-Session review will provide an opportunity to review the updated economic projects and make any adjustments required to reflect “money in the bank”
  - 4<sup>th</sup> quarter corporate and individual estimated income tax payments will have been made
  - Sales tax collections from the holiday season will have been remitted



# What Happens in FY 2015 Revenues Exceed the Forecast

- While the FY 2015 GF forecast projects economic growth of only 2.8%, even this growth substantially exceeds the preceding six-year annual average because of the years of revenue contraction
- Even at this low growth rate, the current FY 2015 forecast triggers a mandatory deposit to the Rainy Day Fund in FY 2017 of \$159 million
- At year-end close, accounting rules require that the Comptroller set aside as a “restriction” any surplus revenues available to meet the FY 2017 deposit requirement as a first call on those funds
  - As a rule of thumb, 50% of any growth above that level must also be deposited into the Rainy Day Fund
  - So if revenue exceeded the forecast by \$274.2 million, the mandatory deposit would increase to \$296.1, requiring more than every dollar in excess of the forecast

# Revenue Stabilization Fund Status



- Note: FY 2017 balance based on the forecast for FY 2015, which results in a FY 2017 deposit of \$159 million. Any surpluses or shortfalls in the current year would increase or reduce that required deposit



# Details by Secretarial Area

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# Health and Human Resources

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# Summary of HHR Proposed Savings and Spending Actions

- Savings in HHR agencies required by Chapter 3 and set forth in Item 471.10: \$57.6 million GF
- Other HHR savings amendments focus on:
  - Forecast adjustments: \$242.5 million GF
  - Other targeted and technical adjustments: \$8.8 million GF
- HHR spending amendments focus on:
  - Mandatory spending: \$37.1 million GF
  - Other spending: \$21.7 million GF

# Ch. 3 Reductions Identified in Item 471.10

(GF \$ in millions)

HHR Agency Reductions	FY 2015	FY 2016
Operational Efficiencies	(\$4.8)	(\$8.5)
Transfer NGF Cash Balances to GF	(11.7)	(1.2)
Reduce Support for Programs	(3.7)	(4.6)
Supplant GF with NGF	(4.9)	(2.5)
Fees (New and Increase of Existing)	(0.5)	(5.5)
2014 Pledge Balances and Other Program Balances	(4.7)	(1.1)
Eliminate Positions	(0.6)	(1.9)
Turnover and Vacancy Savings	(0.8)	(0.6)
<b>Total</b>	<b>(\$31.7)</b>	<b>(\$25.9)</b>

# HHR Proposed Savings of \$251.3 Million

(GF \$ in millions)

Amendments	FY 2015	FY 2016
Forecast Adjustments		
Medicaid Caseload and Utilization	(\$127.8)	(\$66.5)
Adjust GF Appropriation for Va. Health Care Fund	(\$51.4)	\$24.9
FAMIS Caseload and Utilization	(\$15.7)	(\$5.9)
Medicaid SCHIP Caseload and Utilization	(\$0.4)	\$0.3
<b>Subtotal Forecast Adjustments</b>	<b>(\$195.3)</b>	<b>(\$47.2)</b>
Other Targeted Savings and Technical Adjustments		
Adjust Medicaid to Account for Loss of Federal Funding for Piedmont Geriatric and Catawba Hospitals	(\$1.0)	(\$4.0)
Revised CSA Savings from Extending Foster Care to Age 21	-	(\$3.0)
Increase Staffing for Medicaid Third Party Liability Recovery	-	(\$0.5)
Limit Overtime Hours for Consumer-directed Attendants	-	(\$0.3)
<b>Subtotal Targeted and Technical Adj.</b>	<b>(\$1.0)</b>	<b>(\$7.8)</b>

# HHR Proposed Mandatory Spending: \$37.1 Million

(GF \$ in millions)

Agency / Item	FY 2015	FY 2016
<b>Department of Medical Assistance Services</b>		
Delay Closure of NVTC and Delays in Other Training Centers	\$0.5	\$5.1
Adjust Funding for Involuntary Mental Commitments	\$3.1	\$1.5
Upgrade Agency Financial Management System	\$0.1	\$0.4
<b>Department of Behavioral Health &amp; Developmental Services</b>		
Backfill NGF Revenue at Piedmont Geriatric and Catawba Hospitals Agency must reclassify the facilities as nursing facilities and disenroll from Medicare, loses Medicaid DSH payments (GF savings to Medicaid)	\$3.8	\$9.1
Backfill Loss of Federal Medicare EHR Incentive Funding	\$3.0	\$0.8
Special Hospitalization Costs at State Facilities	-	\$1.9
State ID Training Centers–Discharge Delays, SEVTC Lease	-	\$1.3
8 Direct Care Staff at Western State Hospital, 6 Direct Care Staff at CCCA, and 6 Security Staff at VCBR	-	\$0.8
<b>Department of Social Services</b>		
Backfill Loss of NGF Revenues for Child Support Enforcement	\$2.3	\$1.8
Fund Federally Required Information Security Modifications	-	\$0.5
<b>Department for the Aging and Rehabilitative Services</b>		
Fund State Match for Medicaid Disability Determinations	-	\$0.5



# HHR Proposed Discretionary Spending: \$21.7 Million

(GF \$ in millions)

Agency / Item	FY 2015	FY 2016
<b>Department of Medical Assistance Services</b>		
“Cover Virginia” Medicaid Eligibility Central Processing Unit	-	\$4.3
Add 200 Slots & New Services to Redesigned Day Support Waiver	-	\$1.2
Begin Procurement of New Medicaid Management Info System	-	\$0.3
<b>Department of Behavioral Health &amp; Developmental Services</b>		
Expand Local Inpatient Bed Purchases for Adults and Children	-	\$2.2
Rent Subsidies for Redesigned Day Support Waiver	-	\$0.7
New Info. Technology System for Medicaid ID/DD/DS Waivers	-	\$0.5
<b>Department of Social Services</b>		
Revised Estimate to Expand Foster Care & Adoption to Age 21	-	\$5.7
Add 93 Local Eligibility Workers	\$2.1	\$1.9
Fund Proposed Legislation to License All Day Care Providers Receiving Public Subsidies		
Estimated 1,920 providers currently receiving subsidies are currently unlicensed	-	\$2.7
Assumes 1,429 of these providers will choose to become licensed		

# Medicaid Forecast

- Reduction of \$127.8 million GF in FY 2015 and \$66.5 million GF in FY 2016
  - Lower than projected supplemental payments to state teaching hospitals (DSH, IME, GME, supplemental physician payments)
  - Savings from behavioral health services and acute LTC recipient reforms
  - Lower estimates related to “woodwork effect” from federal health care exchange
  - Lower than projected managed care rate increases, effective July 1, 2014
- Savings were offset by:
  - Lower than projected savings from Commonwealth Coordinated Care program (dual-eligible demonstration program)
- Savings would have been greater but for the inclusion of the Governor’s Healthy Virginia Initiative in the forecast

<b>Governor’s Healthy Virginia Initiative (GF \$ in millions)</b>			
<b>Item</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>Total GF</b>
GAP Program for Mentally Ill	\$13.1	\$77.3	\$90.4
Medicaid Impact of CHIP Outreach	\$1.5	\$15.7	\$17.2
Dental Coverage for Pregnant Women	\$0.3	\$1.6	\$1.9
Behavioral Health Homes	\$0.0	\$8.5	\$8.5
<b>GF Total for Healthy Virginia</b>	<b>\$14.3</b>	<b>\$103.1</b>	<b>\$118.0</b>

# DMAS – Policy Changes

- Medicaid Expansion

- Introduced budget does not include any savings from Medicaid expansion proposal
- Adds language to expand Medicaid to individuals with income up to 138% of the federal poverty level pursuant to the federal Patient Protection and Affordable Care Act
  - Expected to be implemented by January 1, 2016
- Until implemented, the Governor's Healthy Virginia Initiative would be in effect to provide limited Medicaid benefits for certain populations
- Projected general fund savings in affected state agencies (DMAS, DBHDS and DOC) would be deposited in the Virginia Health Reform and Innovation Fund and used to defray long-term costs of Medicaid expansion or to meet the mandatory deposit requirements to the Rainy Day fund

# DMAS – Policy Changes

- Hospital Provider Tax
  - Proposes imposing a provider tax on hospitals
    - Tax would be up to 6% of their revenue
  - DMAS would determine procedures for collecting the assessment and would have authority to adjust Medicaid rates to cover the Medicaid cost to hospitals as a result of the tax
    - Hospital tax would be recognized as a Medicaid expenditure eligible for reimbursement through the Medicaid program
  - 65% of the proceeds would be used to supplement hospital reimbursements, graduate medical education and indigent care
  - Remaining 35% of the revenues would be deposited in the Virginia Health Care Fund to offset state Medicaid funding
  - Allocation methodology to be developed by the Secretary of Health and Human Resources
  - No budget savings assumed as a result of this proposal and fiscal impact on providers is unclear
- Supplemental Medicaid Payments for Health Department Clinics
  - Proposes language authorizing DMAS to implement supplemental payments to Health Department clinics using \$150,000 GF each year provided by the Health Department as the state match to draw down additional federal matching dollars

# DMAS – Policy Changes

- Overtime for Consumer-Directed Personal Care Attendants
  - Medicaid forecast includes funding of \$14.4 million GF in FY 2016 to comply with new federal Dept. of Labor rules that extend the Fair Labor Standards Act minimum wage and overtime pay to consumer-directed personal care attendants
    - Forecast assumed payments of time and a half for all consumer-directed personal care hours provided for over 40 hours per week beginning July 1, 2015
  - Adds language to allow DMAS to limit future overtime costs by capping the number of hours of overtime that can be paid for a single attendant who works more than 40 hours per week, effective July 1, 2015
    - Attendant can work no more than 56 hours per week
  - Limits the consumer to be the Employer of Record for only one individual unless there is more than one individual in the same household receiving services
  - Requires that attendants be employed by only one Employer of Record
  - Introduced budget adjusts DMAS funding by of \$325,702 GF and \$327,357 NGF in FY 2016 to account for the savings from limiting overtime

# DMAS/DBHDS – Policy Changes

- Redesign of Day Support Waiver
  - Current Day Support Waiver serves individuals with an intellectual disability on the ID waiting list (urgent or non-urgent)
    - 300 slots
    - Provides day support, prevocational services, and supported employment services
  - Introduced budget proposed to redesign the waiver to:
    - Rename the waiver as the Building Independence waiver
    - Serve individuals with intellectual and developmental disabilities
    - Adds 200 slots effective January 1, 2016
    - Add new services such as integrated day services, shared living and independent living through rental assistance
  - Adds \$1.2 million GF and \$1.2 million matching federal Medicaid funds in FY 2016 in the DMAS budget to support the waiver redesign
  - Adds \$675,000 GF in FY 2016 in the DBHDS budget to support the rental assistance costs which are not reimbursable under the Medicaid program



# Agriculture and Forestry, Commerce and Trade, and Natural Resources

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# Agriculture and Forestry

- Proposed actions in Agriculture and Forestry reduce agency spending by \$700,000 GF in the first year (1.4%) and \$3.4 million GF in the second year (6.2%)
- The majority of reductions were required pursuant to Chapter 3, and are outlined in the table below:

<b>Ch. 3 Required Reductions</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Dept. Agriculture &amp; Cons. Services</b>		
Program Cuts in 471.10	\$167,900	\$1,129,062
Fee Increases – 471.10	\$0	\$900,000
NGF Actions – Part 3	\$1,003,477	\$0
<b>Forestry</b>		
Program Cuts in 471.10	\$529,002	\$1,083,184
NGF Actions – Part 3	\$180,146	\$0



# Ch. 3 Required Savings: Agriculture & Forestry

## VDACS:

- Two fee actions are proposed at VDACS to achieve the Ch. 3 savings
  - The first would impose a new \$10 per device annual weights and measures registration fee and would be used to offset \$500,000 of GF reductions in FY 2016
  - Second proposal would change what is currently a flat fee of \$40.00 per non-restaurant food establishment's annual inspection to a variable fee ranging from \$40.00 to \$375.00 based on the size of the enterprise
    - Estimated to generate \$400,000 and would be used to supplant like amount of GF support
- Other notable program reductions included in VDACS include:
  - Sale of two farmers' markets in Hillsville and on the Northern Neck
  - Elimination of state support for the federally funded coyote control program
  - Sale of the Warrenton VDACS office
  - \$250,000 reduction to the Purchase of Development Rights Matching Grant program

## Department of Forestry:

- Deferring replacement of emergency response equipment, saving \$337,507 GF the first year and \$500,000 GF the second year
- Eliminating 4 positions, and deferring filling vacant positions, producing savings of \$151,494 GF the first year and \$508,184 GF the second year
  - Results in 4 layoffs

# Commerce and Trade Savings

- Proposed actions in Commerce and Trade include savings of \$4.0 million (2.4%) in the first year and \$4.8 million (2.7%) in the second year
- The majority of reductions were required pursuant to Chapter 3, and are outlined in the table below:

Ch. 3 Required Reductions	FY 2015	FY 2016
<b>DHCD</b> – Item 471.10	\$1,380,453	\$779,511
NGF Actions - Part 3	\$484,408	\$0
<b>DOLI</b> – Item 471.10	\$120,899	\$20,899
<b>DMME</b> – Item 471.10	\$278,795	\$418,014
NGF Actions - Part 3	\$15,820	\$0
<b>DSBSD</b> – Item 471.10	\$0	\$256,655
<b>DSBSB</b> – NGF Actions - Part 3	\$1,000,000	\$0
<b>FMA</b> – Item 471.10	\$286,710	\$315,355
<b>VEC</b> – NGF Actions - Part 3	\$105,000	\$0
<b>VEDP</b> – Item 471.10	\$929,509	\$1,267,607
<b>VTA</b> – Item 471.10	\$1,007,511	\$1,710,539

# Commerce and Trade Savings

- Major actions proposed to fulfill the savings requirements of Chapter 3 included, by agency:
  - DHCD
    - Enterprise Zone Grant reductions of \$250,000 in FY 2015 and \$400,00 in FY 2016
    - SW Virginia water and wastewater project reductions of \$750,000 in FY 2015
  - VEDP
    - Reduced funding for international and domestic marketing initiatives by \$929,509 in FY 2015 and \$1,267,607 in FY 2016
  - VTA
    - Reduced funding for research and marketing activities totaling \$505,000 in FY 2016
    - Phase-Out of support for the “See Virginia First” cooperating advertising – reduces program by 50% in FY 2015 and proposes eliminating it FY 2016 (biennial savings of \$941,334)

# Commerce and Trade Spending Proposals

- Reductions are more than offset by proposals to increase spending by \$10.3 million GF in FY 2015 and \$15.3 million GF in FY 2016, resulting in a net appropriation change of \$24.5 million over the biennium, an increase of 7%
- The largest spending item is an increase of \$9.9 million in FY 2015 and \$10.8 million in FY 2016 for the Governor's Opportunity Fund
  - Brings the total to \$19.9 million GF in the first year and \$20.7 million GF in the second year
  - A companion action to the "front page" reduces the GF carryforward balance to offset prior reductions to GOF reversions of \$7.75 million
- Funding for all other economic development incentive payments in the Virginia Economic Development Incentives Payment Item, which totals \$62.1 million in FY 2015 and \$79.1 million in FY 2016, remain unchanged
- DHCD includes 2 major spending items –
  - Proposes \$1.0 million GF in the second year for the expansion of the Community Business Launch Program intended to promote entrepreneurship and small business development
  - Also proposes \$1.0 million GF in the second year for Rapid Re-housing
- Proposes to increase funding for the Fort Monroe Authority by \$0.3 million GF in each year for payments in lieu of taxes to the City of Hampton, bringing the total amount to \$1.3 million annually
- At the Virginia Tourism Authority, proposes \$400,000 GF in the second year to market tourism between the Commonwealth and China
  - This is the first year of a three year action to fulfil a contractual agreement with Air China

# Center for Innovative Technology

- Proposed actions at CIT reduce agency spending by \$2.9 GF in the first year (35%) and \$576,279 GF in the second year (6.9%)
  - While the first year reduction appears quite large, the largest portion is related not to a program reduction but the use of prior year balances, leaving program levels unchanged
- Language is included to improve transparency of expenditures and reporting at CIT
- All the reductions were required pursuant to Chapter 3, and are detailed below:

Ch. 3 Required Reductions	FY 2015	FY 2016
Supplant Growth Accelerator Program w/ prior year's balances	\$2,000,000	\$0
Fund modeling and simulation with prior year's balances	\$500,000	\$0
Shift administrative staff costs to billable projects and reduce outside consultants	\$110,509	\$156,788
Reduce collaborative initiatives and outside advocacy	\$300,552	\$419,491

# Natural Resources

- Proposed actions in Natural Resources reduce agency spending by \$1.2 million in the first year and \$3.2 million GF in the second year
  - Savings in excess of amounts listed above represent nongeneral fund cash balances reverted to the GF but not impacting programmatic appropriations
- The majority of reductions were required pursuant to Chapter 3, and are outlined in the table below:

Ch. 3 Required Reductions	FY 2015	FY 2016
<b>DCR</b> – Program Cuts in 471.10	\$262,742	\$524,787
Fee Increases in 471.10	\$0	\$870,144
NGF Actions – Part 3	\$1,390,000	\$0
<b>DEQ</b> - NGF Actions – Part 3	\$3,556,028	\$2,667,213
<b>Historic Resources</b> – Program Cuts in 471.10	\$152,663	\$0
<b>Marine Resources Commission</b> – Program Cuts in 471.10	\$667,654	\$625,000
<b>Museum Nat’l History</b> – Program Cuts in 471.10	\$144,628	\$203,295

# Natural Resources Savings Actions

- Table below details the savings strategies for the Department of Environmental Quality (summarized on the previous page) which total \$3.6 million in the first year and \$2.7 million in the second year
- None reflect programmatic reductions; all rely on the capture of NGF balances, outlined below:

(\$ in millions)	FY 2015	FY 2016
Waste Tire Fund	\$ 0.9	\$ 0.0
Hazardous Waste Management Fund	0.8	0.0
Emission Inspection Program Fund	1.6	0.3
Underground Petroleum Storage Tank Fund	0.0	2.4
Fish Kill Investigation Fund	>0.1	0.0
Other	0.1	0.0
<b>TOTAL</b>	<b>\$ 3.6</b>	<b>\$ 2.7</b>

# Natural Resources Spending

- Includes \$8.2 million the second year from the Water Quality Improvement Fund Reserve Fund
  - There is no statutorily required deposit to the WQIF because of the FY 2014 shortfall
  - HB 1400 proposes use of the full amount in the Reserve Fund, as follows:
    - \$6.7 million for the Natural Resources Commitment Fund for agricultural best management practices;
    - \$0.6 million for Soil and Water Conservation District for technical assistance;
    - \$0.7 million for Conservation Reserve Enhancement Program and,
    - \$0.1 million for golf course nutrient management
- The amendments also include an additional \$0.7 million in the first year and \$1.1 million in the second year for operating expenses at DCR
- Capital Outlay includes a proposals to use \$2.2 million in NGF the second year for projects to allow for the opening of the Seven Bends Park on a limited use basis



# Other Natural Resources Actions

## Fee Increases:

- Proposes language authorizing the Department of Environmental Quality to establish a Class A Biosolids fee of \$3.75 per dry ton
  - There is currently a fee on Class B producers of \$7.50 per dry ton
  - No revenues are assumed
- Proposes to capture balances of \$0.7 million in the first year and \$0.6 million the second year from the Saltwater Recreational Fishing License Fund
  - A fee increase of an amount averaging \$5.00 per license would offset this amount in the second year
- State Park Fees were increased effective January 1, by an average of 5%, with discounts being offered to state residents
  - Expected to generate \$870,000

## Other Actions:

- Retains the \$2.4 million increase in sales taxes on hunting and fishing related equipment, and by \$2.2 million from increased watercraft sales taxes each year that otherwise would be deposited to the Game Protection Fund
- Proposes a \$4.0 million line of credit for the Department of Conservation and Recreation to accommodate timing in receipt of federal funds and seasonality of expenditures



# Transportation

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# VDOT and DRPT

- Within VDOT, net revenues are adjusted downward by \$1.7 million NGF in the first year and \$50.6 million in the second year to reflect the revised revenue forecast, the transfer of unallocated FY 2015 balances to FY 2016, and to mirror the amounts included in the six-year financial plan adopted by the Commonwealth Transportation Board in November
  - Offsetting the lower revenue forecast is a 7% reduction in VDOT administration costs
  - The savings are reprogrammed to supplement the agency's maintenance and construction programs. None are transferred from the agency
- At DRPT, the budget includes a \$68.1 million increase in the nongeneral fund appropriation in FY 2016, largely from increased federal grants

# Port of Virginia

- The proposed amendments for the Virginia Port Authority reflect the ongoing consolidation of the VPA and Virginia International Terminals operations
  - Proposes to increase the VPA's maximum employment level by 46.0 FTE position and \$13.5 million NGF
  - This reflects the transfer of existing positions from the Port's VIT operating arm, which is not included in the Appropriation Act
- Language authorizes the modification of the existing Portsmouth Terminal Lease language to allow the VPA to extend or renew its operating lease on by 50 years and/or convert from an operating lease to a capital lease arrangement
- Separate language proposes to allow previously authorized Commonwealth Port Fund Bonds issued for Craney Island improvements to be used for the construction or expansion of other port facilities



# Compensation & Retirement

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# State Employee Health Insurance

- Contains savings of \$1.5 million GF the first year and \$23.0 million GF the second year in funding for the employer share of the state employee health insurance program
  - FY 2015 savings from refinement in the GF and NGF fund splits at the Department of Behavioral Health and Developmental Services (DBHDS) and the institutions of higher education
  - FY 2016 savings result from:
    - ▶ \$3.7 million GF from refinement in the GF and NGF fund splits at DBHDS and the Colleges
    - ▶ \$3.3 million GF from updated cost projections for current program
    - ▶ \$9.6 million GF from eliminating proposal to add-on to the premiums to replenish the balances in the Health Insurance Fund (HIF)
    - ▶ \$5.1 million GF from reflecting NGF cash transfers into HIF
    - ▶ \$1.2 million in net savings from proposed plan design changes

# State Employee Health Insurance Plan Proposed Plan Design Changes

(\$ in Millions)

Plan Design Change	GF
Increase Annual Plan Year Deductible by \$75 for single person coverage and \$150 for family coverage	(\$0.9)
Reduce Co-Pay for Physical Therapy from \$35 to \$15	\$0.5
Modify Coverage for Compounding Pharmacy Products	(\$0.6)
Require Prior Authorization for Androgens Pharmacy Products	(\$0.2)
Provide Telemedicine - Nurseline	(\$0.07)
Provide Telemedicine – Physician Services	minimal
Coverage for Routine Hearing Screens -Include Option to Buy Up	minimal
Oncology Program - Provider Education of Less Costly Methods	minimal
<b>Total</b>	<b>\$1.2</b>
Cost Avoidance Proposal – Combine Pharmacy and Medical into one annual out of pocket maximum as required by ACA (\$2,500 / \$5,000 / \$5,000)	(\$4.0)

# Lump Sum VRS Contribution

- Includes within the Department of Education \$150.0 million NGF, from the literary fund, in FY 2016 to fund a lump-sum payment to the VRS
  - Language states payment shall be applied to the repayment of the 10 year- repayment of the 2010-12 biennium deferred contributions
  - Amendment captures \$10.4 million GF in savings in FY 2016 from decreasing the regular VRS retirement contribution rate for the teacher system from 14.50% to 14.15% in FY 2016 based on the accelerated repayment



# Misc. Compensation & Retirement Proposals

- Includes \$1.6 million GF in FY 2016 to increase the salaries for deputy sheriffs. Entry level, grade 7, positions would increase from \$29,081 to \$31,009 and salaries for grade 8 positions would increase from \$31,788 to \$32,009
  - Proposed salary for Grade 7 positions are tied to the maximum income level for a family of four on the federal Supplemental Nutrition Assistance Program (SNAP)
  - The language requires localities to fund future salary adjustments which would automatically occur when the SNAP income levels are adjusted
- Includes language authorizing a working capital advance of up to \$20.0 million for the Department of Human Resources to settle workers' compensation claims involving state employees
  - The language instructs DHRM to target claims open more than one year and less than 10
  - Requires an annual review of workers compensation claims and establishes a loss control program for agencies with normal claims history

# Benefit Contributions

## Technical Funding Adjustments

- Includes savings of \$562,041 GF each year in Central Appropriations from adjusting the funding for retirement contributions to the VRS. The funding is the net result of two actions:
  - Savings of \$605,645 GF each year from adjusting the fund splits charged at the DBHDS
  - \$43,604 GF in funding each year for the Fort Monroe Authority
- Captures savings of \$323,864 GF each year from adjusting the funding for Other Post Employment Benefit programs for state supported local employees
  - Funding was adjusted in Chapter 2 (and Chapter 3) for state employees based on funding 90% of the VRS Board certified rates



# Public Safety

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# Public Safety: Item 471.10 Savings

Chapter 3 Required Savings	FY 2015 (\$ millions)	FY 2016 (\$ millions)
ABC	(\$2.9)	(\$2.9)
Department of Corrections	(\$21.0)	(\$54.8)
State Police	(\$12.4)	(\$0.7)
Department of Juvenile Justice	(\$5.2)	(\$3.4)
Department of Forensic Science	(\$1.2)	(\$1.8)
Other Public Safety	(\$1.3)	(\$1.4)
<b>Total, Public Safety and Homeland Security</b>	<b>(\$43.9)</b>	<b>(\$65.1)</b>
Department of Veterans Services	(\$0.7)	(\$0.1)

# Chapter 3 Reversions – Department of Corrections

- Facility closures:
  - Powhatan Correctional Center: Net savings of \$1.3 million GF the first year and \$14.7 million GF second year from closure (809 beds, 329 positions)
  - White Post Diversion Center: Net savings of \$200,000 GF the first year and \$2.3 million GF the second year from closure (42 positions)
  - Cold Springs Work Center: Net savings of \$500,000 GF the first year and \$3.2 million GF the second year from closure (56 positions)
- Saves \$2.1 million GF the first year and \$11.2 million GF the second year by delaying opening of Culpeper Juvenile Correctional Center as a DOC adult facility for women
- Transfers \$6.9 million NGF to the general fund from fees charged for housing out-of-state inmates
- Assumes additional “front page” revenue of \$20.0 million GF from anticipated sale of properties
  - Botetourt, Pulaski and White Post properties

# Chapter 3 Reversions – Department of State Police

- In FY 2016, the programmatic reductions at State Police total \$700,000; vast majority of savings generated in FY 2015 only
- State Trooper Vacancies: Saves \$2.7 million GF the first year and \$700,000 GF the second year by keeping some trooper positions vacant
  - Assumes 41 vacancies the first year, and reduces it to 11 vacancies the second year
- Transfers \$5.2 million in FY 2014 nongeneral fund balances to general fund the first year
- Saves \$4.5 million the first year in unspecified reductions
- Transfers \$50,000 to the general fund from the auction of an airplane based at the Chesterfield Airport

# Department of Corrections Spending

- Proposes \$11.0 million GF in the first year and \$20.4 million GF the second year for increased inmate medical costs
  - Second year amount includes \$500,000 and six positions to increase recruitment efforts for DOC medical staff and administration
  - Amendment reduces NGF appropriation by \$200,000 each year
- Includes \$150,000 GF the second year for projected increases in bedspace associated with legislation proposed by the Governor.

## Proposed bills would:

- Create universal background check on all firearms sales at gun shows (\$50,000)
- Create mechanism for voluntary background checks and require Virginia State Police to be present at every firearms show (\$50,000)
- Revoke a concealed firearms permit if the holder is delinquent on child support payments (\$50,000)

# Department of Alcoholic Beverage Control

- Increases transfer of net profits to the general fund by \$2.5 million the first year and \$2.0 million the second year
  - Increased profits generated by raising the case handling fee at the warehouse, increasing markup on 50 ml “miniature” bottles, and “rounding up” the price of merchandise on the shelf
  - Total increase in revenues resulting from these actions expected to be \$5.4 million in first year and \$9.5 million in second year
  - Proposes to cap annual growth in the profits transfer growth to the General Fund at \$2 million for the next seven years
  - They propose to spend the remainder - \$2.9 million the first year and \$7.9 million the second year – to improve agency operations and profitability
- Information Technology and Marketing Initiatives: Includes \$30.0 million NGF for current biennium, with an additional \$30.2 million in the following biennium to upgrade information technology systems and marketing
  - Estimated total cost of \$38.4 million for enterprise IT systems
  - \$21.8 million NGF planned for 2016-18 biennium to replace point-of-sale system and upgrade other systems



# Other Public Safety Spending

- State Police

- Provides \$600,000 NGF the second year to remove the cap on amount of designated court fees deposited in Internet Crimes Against Children Fund
- Adds \$100,000 GF the second year and one position to support background checks for the purchase or transfer of firearms at firearm shows, based on proposed legislation

- Department of Forensic Science

- Adds \$38,598 GF the first year and \$188,350 GF the second year to review archived files from 1973 through 1995 to identify hair examination cases
- Provides \$150,000 GF the second year to support advanced re-testing of post-conviction DNA cases

# Local and Regional Jails

- Jail Per Diems: Provides \$11.3 million GF the first year to fund the project cost of per diem payments to regional and local jails
  - Funding to cover projected second year increase of \$13.0 million GF is not included
- Central Virginia Regional Jail: Includes \$200,000 GF the second year for 11 additional positions to support Phase 1 of the Central Virginia Regional Jail expansion project

# Department of Veterans Services

- Virginia Values Veterans (V3) and Virginia Transition Assistance Program (VTAP)
  - Adds \$474,000 GF and \$100,000 NGF the second year to support hiring of veterans by companies certified by V3 program, and to support transition of veterans to civilian workforce in the VTAP program
- Provides \$67,090 GF and \$42,000 NGF and 1 position the second year to conduct eligibility and certification for Virginia Military Survivors and Dependents Education Program
- Provides \$1.8 million GF and 8 positions the second year to enhance services provided through agency's field offices
- Adds \$180,000 GF the second year for three local Housing Resource Specialist positions for Virginia Wounded Warrior Program



# General Government

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# Chapter 3 Required Savings: General Government

Chapter 3 Required Savings (\$ in million)	FY 2015	FY 2016
Administration	(\$8.1)	(\$2.2)
Finance	(\$6.0)	(\$5.8)
VITA	<u>(\$4.2)</u>	<u>(\$0.2)</u>
<b>Total</b>	<b>(\$18.3)</b>	<b>(\$6.2)</b>

# Chapter 3 Required Savings – General Government

- Department of General Services
  - Transfers NGF balances from five existing internal service funds to provide \$6.1 million GF resources in the first year
  - Proposes GF savings of \$250,000 in second year by increasing fees charged to commercial laboratories for certifying the labs
- Virginia Information Technology Agency
  - Transfers \$4.2 million in NGF balances from VITA's internal service funds to the GF
- Department of Planning and Budget
  - Captures savings of \$200,000 GF in FY 2016 from eliminating GF support for the school efficiency review program
- Department of Taxation
  - Assumes \$1.35 million in additional resources in FY 2016 from increasing the Land Preservation Credit transfer fee

# Judicial Department and Executive Offices

- Judicial Department

- Adds \$5.2 million GF the first year and \$8.2 million GF the second year for increased costs associated with the Criminal Fund

- Executive Offices

- Attorney General and Department of Law

- Adds \$1.3 million NGF in the second year to align appropriation for the Medicaid Fraud Control Unit with the approved federal grant for the Unit
- Includes \$200,000 NGF in the second year to support services related to the Virginia Fraud Against Taxpayers Act

- Office of the State Inspector General

- Includes \$150,000 GF the second year for a study of Catawba Hospital and Piedmont Geriatric Hospital

# Department of Elections

- Budget proposes two actions related to voting equipment
  - First, requires localities to replace direct-recording electronic voting machines with optical scanner voting equipment
    - Includes \$1.6 million GF in second year as first of three-years' reimbursements for 11 localities that have already made this investment
  - Second, proposes capital amendment to finance the replacement of non-compliant voting equipment with \$28.0 million in VPBA proceeds
- Also at the SBE, proposes an additional \$1.2 million NGF the first year and \$2.9 million NGF the second year from federal funds to maintain Virginia Election Registration Information System



# Other General Government Actions

- Funding for Ethics Reform
  - Includes under Central Appropriations \$500,000 GF the second year to support ethics reform activities
    - Funding of \$150,000 GF in the first year and \$300,000 GF the second year was approved by the General Assembly last year, but was vetoed
- Central Accounts Funding for VITA Costs
  - Includes under Central Appropriations \$4.9 million GF the first year and \$6.0 million GF the second year to support updated projections of VITA charges to state agencies
    - Budget language is included under VITA to limit VITA's surcharge rate, administrative overhead charge, to no more than 8.26% in FY 2015 and 7.81% in FY 2016

# Significant Language Amendments

- Establishes a Federal Repayment Reserve Fund
  - Special non-reverting fund administered by the State Comptroller to repay the federal government its share of any rebates, ISF profits, transfers to the general fund, or amounts arising from other sources
  - Any agencies with cash balances held in reserve for federal repayment required to transfer an amount determined by Comptroller to the Fund by June 30
- Cardinal Implementation
  - Amends budget language to increase capital working advance for Cardinal system development from \$60.0 to \$75.0 million
    - Additional cost is related to the need to replace the CIPPS (payroll) system
- Collection of Overdue Fines and Fees
  - Governor strikes language included in Chapter 3 preventing Treasurers from collecting overdue fines and fees on a contingency basis



# Public Education

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# Public Education

- Within the Direct Aid to Public Education budget, the majority of the proposed amendments reflect transfer adjustments included in Chapter 3 (Item 471.40) and technical updates
  - It's important to point out that the Direct Aid budget did not realize any agency 5% and 7% budget reduction cuts in HB 1400
  - The table shows the transfer amounts for the Lottery and Literary Fund revenues
    - The additional NGF revenues supplanted equal amount of GF

<b>Distribution of Adjustments from Item 471.40 in Chapter 3</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>Biennium</b>
Offset GF with Additional NGF Lottery Proceeds	(\$28.1)	\$0.0	(\$28.1)
Offset GF with Additional NGF Literary Fund Revenue	<u>(\$15.0)</u>	<u>\$0.0</u>	<u>(\$15.0)</u>
<b>Subtotal for Chapter 3 Changes</b>	<b>(\$43.1)</b>	<b>\$0.0</b>	<b>(\$43.1)</b>

# HB1400 Technical Updates to SOQ, Incentive and Categorical Accounts

- DOE's annual update to student membership projections for the biennium reflect a slower growth in ADM and saves \$14.2 million GF
  - FY 2015: \$6.4 million decrease from 1,741 fewer students than projected for a revised statewide ADM estimate of 1,236,529
  - FY 2016: \$7.8 million decrease from 2,214 fewer students than projected for a revised statewide ADM estimate of 1,244,215
- As is typical, lower membership heads to lower student participation levels for the programs in the Incentive and Categorical accounts
  - Incentive accounts reflect a net savings of about \$0.6 million
  - Categorical accounts reflect a net savings of about \$2.0 million
- Technical updates in FY 2015 that are related to corrections from data submission errors in FY 2014: adds \$668,918
  - ADM, remedial summer school, and special education regional tuition

# Sales Tax Updates

- Proposed actions reflect the sales tax forecast update and updating the sales tax distributions based on current school-aged population census data
  - Reforecast estimates reflect a net savings of \$6.0 million
  - Updates from the most current census data will result in an increase of \$1.6 million in the second year

Net Sales Tax	FY 2015	FY 2016	Biennium
Proposed Increase to Sales Tax Forecast	(\$5.5)	(\$8.2)	(\$13.7)
SOQ Basic Aid Adjustment	\$3.1	\$4.6	\$7.7
<b>NET Adjustments</b>	<b>(\$2.4)</b>	<b>(\$3.6)</b>	<b>(\$6.0)</b>

# Lottery Proceeds Fund Updates

- HB 1400 reflects several amendment changes in the Lottery Proceeds Fund beyond those contained in Chapter 3
- Proposes using the available net Lottery revenues to fund a like amount of general fund programs costs and generates an equal GF savings
  - Revised revenue forecast for a net increase of \$26.1 million over the biennium
  - Technical adjustments for lower student participation rates in programs funded with Lottery revenues, resulting in \$16.3 million over the biennium
  - Carry forward balance of \$3.0 million from prior year to FY 2015

# Summary of Technical Changes for Direct Aid

Technical Adjustments in HB 1400	FY 2015	FY 2016	Biennium
Update Sales Tax Revenue Distributions based on Latest Census	\$0.0	\$1.6	\$1.6
Correct Data and Calculation Errors	\$0.7	\$0.0	\$0.7
Update Incentive Programs	(\$0.5)	(\$0.1)	(\$0.6)
Update Categorical Programs	(\$1.3)	(\$0.7)	(\$2.0)
Update Net Sales Tax Revenue Reforecast Estimate	(\$2.4)	(\$3.6)	(\$6.0)
Update Student Enrollments	(\$6.4)	(\$7.8)	(\$14.2)
Update GF for Changes in Lottery-funded Programs	(\$12.2)	(\$4.1)	(\$16.3)
Update GF for Lottery Reforecast & Carry-forward	<u>(\$7.5)</u>	<u>(\$21.6)</u>	<u>(\$29.1)</u>
<b>Total Technical Changes</b>	<b>(\$29.6)</b>	<b>(\$36.3)</b>	<b>(\$65.9)</b>



# Literary Fund – Updates and Policy Changes

- Literary Fund figures reflect a transfer adjustment from Chapter 3, and also realizes several other proposed amendment and policy changes
- Reflects a proposal of Treasury Department to sell \$250.0 million of unclaimed stocks and to use proceeds for the following purposes:
  - Make a one-time payment of \$150.0 million in FY 2016 to the VRS to decrease the deferred contribution portion of the unfunded liability in the teacher retirement account
    - Subsequently, based on the lowered unfunded liability balance, the introduced budget proposes re-calculating the retirement rate to 14.15%, down from 14.50%, and to capture the \$10.4 million GF in FY 2016 in generated savings
    - Lower VRS rate also reduces school divisions' share of costs
  - \$50.0 million for new School Construction loans
  - \$25.0 million for Interest Rate Subsidy grants
  - \$25.0 million is allocated to offset a like amount of general fund spending for teacher retirement costs

# New Program, Policy and Language Changes

- Proposes adding \$1.3 million GF in FY 2015 and \$1.4 million GF in FY 2016, to backfill the loss of DMV generated revenues that occurred from the extension of driver licenses renewal period from 5 to 8 years for the remaining transition period
- Proposes adding \$537,297 GF in FY 2016 to fund a new School 'Breakfast After the Bell' incentive program that will be given to school divisions that elect to offer some type of innovative way of serving breakfast to students after the school day begins
- New language would allow any unused Pre-K student slots to be reallocated to other school divisions that have used all of their allocated slots and have reported a waiting list for the program in FY 2016
  - Proposal reallocates funding from unused At-risk slots to pay for non At-risk student slots – policy would not allow the current budget non-participation rate to be adjusted to reflect actual usage
    - While the current Pre-K program covers 100% of the at-risk four-year-olds based on free lunch eligibility for every division – budget language does allow schools to use any definition to determine 'At-risk'
- New language proposes flexibility that will allow DOE to allocate available balances from year-round school grants to other types of submitted proposals for extended day or other alternative instructional models

## DOE Central Office: \$2.2 Million GF New Spending in FY 2016

- Proposes adding \$732,000 in one-time funding to transition the 7<sup>th</sup> and 8<sup>th</sup> grade SOL mathematics tests to a Computer Adaptive Testing (CAT) platform
- Recommends adding \$1.3 million to help under-performing and academically struggling schools
  - \$713,000 to establish a program of professional development for principals
  - \$572,976 for five new positions to help support those schools
- Proposes \$200,000 to cover the estimated cost of expedited SOL retakes for 3<sup>rd</sup> through 8<sup>th</sup> graders that have failed within a narrow window of a pass rate
- New language expands the use and scope of the Information Technology Academy funding to include additional IT credentials and certifications
- Reflects \$1.2 million savings in FY 2016 from reductions listed in the Reversion Clearing Account (Item 471.10)



# Higher Education

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# Higher Education Reductions

- For FY 2016, the Governor recommends continuing the \$45.0 million annual reduction (approximately three percent) as originally proposed and enacted by the General Assembly in Chapter 3 in Item 471.20
  - The Governor had previously proposed 5% and 7% reductions for colleges and universities last fall
  - The Governor also continues the no reduction position adopted by General Assembly for VIMS and Extension
  - The Governor proposes eliminating language that tuition and fee increases not be used to offset reductions
- All other higher education entities such as EVMS, higher education centers, the State Council for Higher Education (SCHEV), state libraries & museums generally received reductions of 5% and 7% (Item 471.10)

# Colleges & Universities

## Chapter 3, Item 471.20

Institution	GF Annual Reduction	GF Cut Percent	Institution	GF Annual Reduction	GF Cut Percent
CNU	\$601,975	2.3%	UVA	\$8,160,065	6.6%
CWM	\$2,338,873	5.7%	UVAW	\$126,330	0.9%
GMU	\$4,705,571	3.9%	VCU	\$5,377,759	3.3%
JMU	\$3,113,308	4.2%	VMI	\$441,825	4.9%
LU	\$542,707	2.2%	VSU	\$637,174	2.0%
NSU	\$550,089	1.3%	VT	\$6,133,525	4.0%
ODU	\$2,230,669	2.1%	RBC	\$64,754	1.1%
RU	\$1,113,249	2.4%	VCCS	\$8,226,680	2.3%
UMW	\$635,447	3.0%	<b>Total</b>	<b>\$45,000,000</b>	<b>3.3%</b>

Note: VIMS & Extension excluded

# Other Higher Education

## Chapter 3, Item 471.10

Agency	FY 2015		FY 2016	
	Reduction	Percent	Reduction	Percent
EVMS	\$893,213	5.0%	\$1,250,499	7.0%
NCI	\$78,952	5.2%	\$106,313	7.0%
IALR	\$306,179	5.0%	\$428,650	7.0%
RHEC	\$56,101	5.0%	\$78,541	7.0%
SoVaHEC	\$117,395	5.0%	\$164,385	7.0%
SwVaHEC	\$100,616	5.0%	\$140,874	7.0%
Jeff Labs	\$57,500	5.0%	\$80,500	7.0%
SCHEV	\$597,979	5.0%	\$1,088,626	9.1%

Note: SCHEV reductions reflect exemption of financial aid only. SCHEV 2<sup>nd</sup> year reflects balances in addition to 7% cut.

EVMS excludes financial aid and indigent care.

# State Library & Museums

## Chapter 3, Item 471.10

Agency	FY 2015		FY 2016	
	Reduction	Percent	Reduction	Percent
FCM	\$78,257	5.0%	\$109,648	7.0%
Gunston	\$26,316	5.2%	\$35,816	7.0%
JYF	\$367,363	5.0%	\$557,629	7.0%
State Library	\$294,299	2.4%	\$365,560	3.0%
SMV	\$259,418	5.0%	\$378,946	7.0%
Comm for Arts	\$195,373	5.0%	\$273,741	7.0%
VMFA	\$504,156	4.9%	\$706,124	6.9%

Note: Cuts for State Library reflect amounts/actions the Governor accepted from the submitted 5% /7% reduction plans and recognition of exemption of Local Library Aid.



# Higher Education Spending

- Proposes a total \$2.3 million GF in FY 2016 for base operating support for institutions who are below 99% of base funding guidelines
  - Only four institutions qualified – NSU, ODU, UVA-Wise & VSU
  - Proposed language permits NSU & VSU to use these funds for financial aid
- Proposes \$3.5 million GF in FY 2016 for financial aid
  - UMW (\$577,380) & GMU (\$303,231) received allocations to meet 30% of need under financial aid models
  - \$100,000 was proposed for each of the remaining institutions except for the VCCS which would receive \$200,000 under the Governor's proposed budget amendments
  - In addition, \$1.0 million GF is provided to the VCCS for need-based aid to students pursuing industry-based certifications
    - Criteria for this new program are being developed by the VCCS
- Proposes \$4.2 million GF for the Jeff Labs electron collider
- Recommends \$10 million increased allocation from the HEETF in FY 2016
  - Changes policy and provides an allocation for EVMS for the first time
  - It should be noted that FY 2015 allocations were delayed to generate lease payment savings requiring institutions to use their own funds until reimbursement



# Capital Outlay

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# Capital Construction, Repairs and Equipment

- Projects supported through bonds:
  - Proposes \$55.7 million in VCBA / VPBA tax-supported bonds as follows:
    - \$50.7 million to purchase previously-approved equipment for projects schedule to come on-line in FY 2016
    - \$5.0 million to supplement the maintenance reserve program
  - Proposes \$67.5 million in 9 (c) nongeneral fund supported bonds to construct Upper Quad Residential Facilities at Virginia Tech
  - Proposes \$55.5 million in 9 (d) nongeneral fund supported bonds for a variety of nongeneral fund higher education projects
- Projects funded through nongeneral funds (e.g. gifts, federal funds, auxiliary enterprise revenues, and special revenues)
  - \$54.9 million for higher education related projects
  - \$8.6 million for projects at Dept. of Military Affairs
  - \$5.4 million for projects in DCR, DGIF and Forestry
  - \$1.9 million for projects in DMV

# Other Capital Outlay

- Proposes \$28.0 million in VPBA bonds to purchase and replace voting equipment statewide for localities
  - A companion recommendation provides for \$1.6 million GF in Dept. of Elections as part of a three-year initiative to reimburse localities that previously upgraded their voting equipment
- Treasury Board
  - Proposes additional debt service savings \$7.2 million in FY 2015 and \$17.0 million in FY 2016 primarily from VPBA and VCBA equipment savings
- Proposed capital outlay language
  - Dept. of Veterans Services – proposes language that specifies the level of state support for the two new veterans care centers
    - This was previously done by the General Assembly in Chapter 1
    - HB 1275 & HB 1276 (Del. Cox) have already proposed specifying state support and provides for a funding source
  - DBHDS – authorize use of previous bond authority for Central Va Training Center to make grants to localities and private entities for construction of community housing
  - DGS to study acquisition of CIT building