



2023 Session

Revenue and Budget Outlook

HAC Retreat
November 14, 2022

Prepared by House Appropriations Committee Staff

Topics for Discussion



Review of FY 2022 Revenues

Adjustments to the FY 2022-24 Revenue Forecast

2023 Session Budget Outlook

Major Budget Drivers



REVIEW OF FY 2022 REVENUES



Including Transfers, FY 2022 GF Resources Grew 16.0% & Finished \$1.9 b. Above Forecast

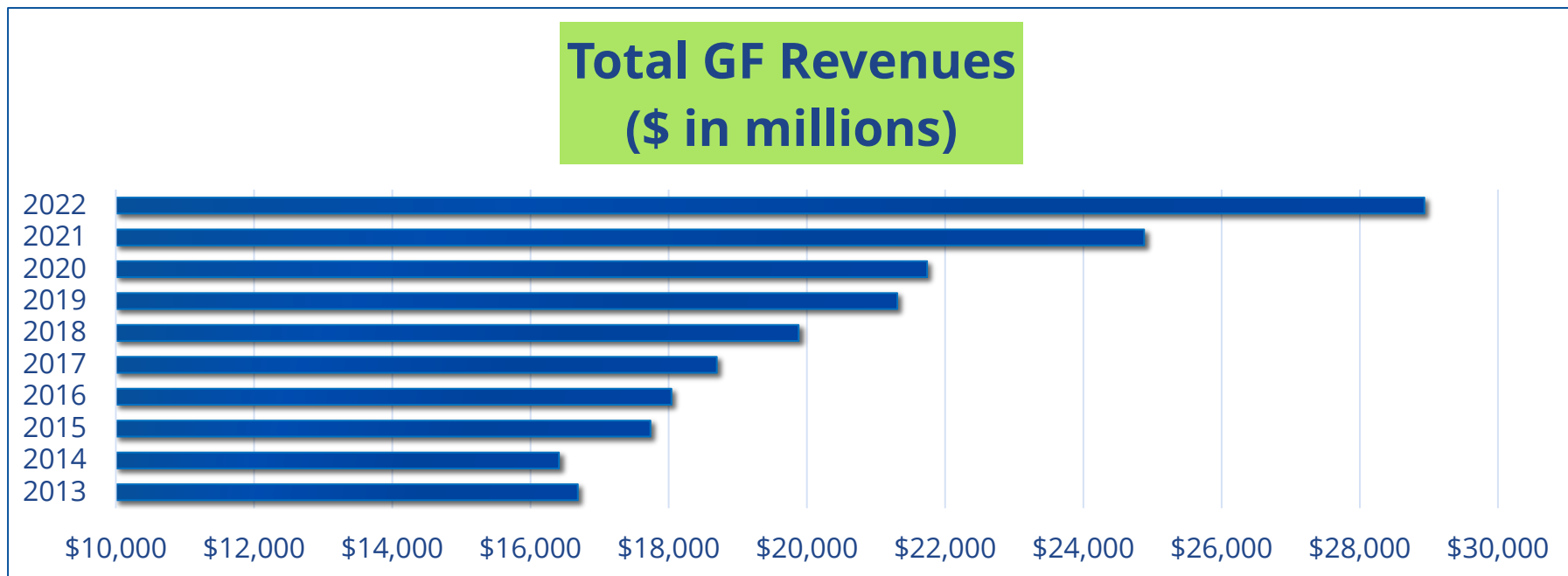
Summary of Fiscal Year 2022 Revenue Collections (\$ in millions)

Source	Official Forecast	Actual Collections	Difference	Growth Forecast	Actual Growth
Withholding	15,267.2	15,340.3	73.1	9.0%	9.5%
Nonwithholding	5,346.6	6,810.5	1,463.9	2.5%	30.5%
Refunds	(2,020.7)	(1,740.5)	280.2	4.9%	(9.6%)
Net Individual	18,593.1	20,410.3	1,817.1	7.5%	18.0%
Sales	4,437.6	4,558.1	120.5	6.5%	9.4%
Corporate	2,009.6	1,978.7	(30.9)	32.6%	30.5%
Recordation	650.7	654.1	3.4	(4.3%)	(3.8%)
Insurance	419.3	426.8	7.5	15.5%	17.6%
All Other Revenue	888.0	907.0	19.0	4.5%	6.7%
Total Revenue	26,998.3	28,934.9	1,936.6	8.5%	16.3%
Total Transfers	803.9	814.3	10.4	6.0%	7.3%
Total General Fund	27,802.2	29,749.2	1,947.0	8.4%	16.0%



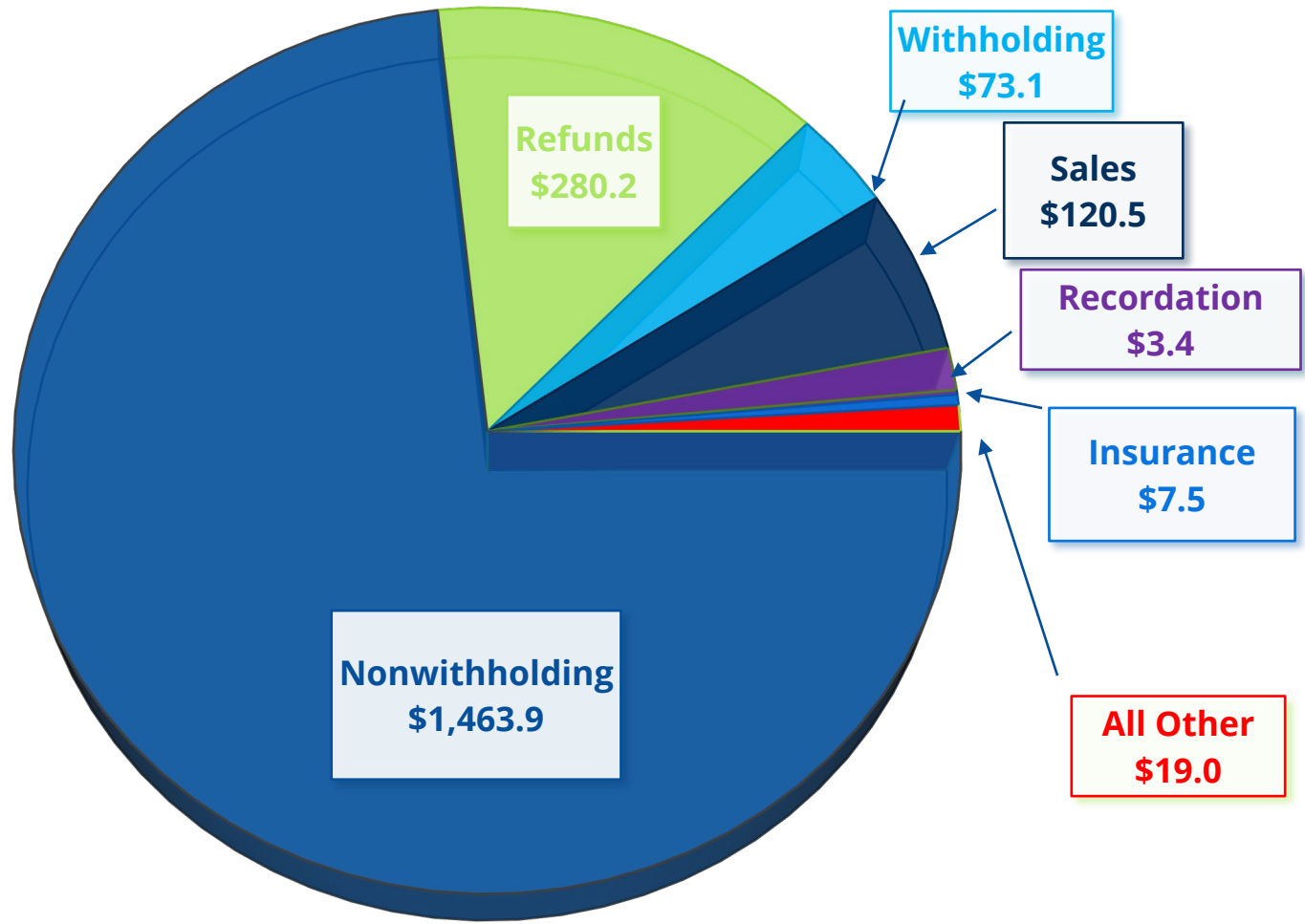
FY 2022 Revenues in Context

- FY 2022 marked the second straight year of historically high revenue growth
 - FY 2021 growth was 14.4%
 - FY 2022 growth was 16.3%
 - Last time this rate of growth was seen (exclusive of FY 2005 with tax increase) was the late 90s – yet growth never exceeded 11%
 - Even absent economic downturns, this is not sustainable



FY 2022 Surplus Driven by Nonwithholding

(\$ in Millions)



Governor's Accounting of the FY 2022 GF Surplus

Distribution Requirements	Amount (\$ in millions)
Balance of Mandatory Rainy Day Fund (RDF) Deposit (This is in addition to Ch. 2 prepayment of \$498.7 million)	\$406.0
Water Quality Improvement Fund (Part A – based on revs.)	\$88.8
WQIF (Part B – based on agency balances)	\$42.2
Contingent Spending Included in Chapter 2 (\$250 m. to VRS, \$150 m. to I-64, \$50 m. to business ready sites, \$100 m. capital supplements, \$35 m. to Amazon fund)	\$585.5
Set aside for potential RDF Super Deposit	\$452.3
Voluntary deposit to Taxpayer Relief Fund	\$396.9
Total Revenue Surplus	\$1,929.5



FY 2022-2024 REVENUE REFORECAST REVISIONS



2022 Revenue Forecasting Schedule

- **August 5.** First meeting of Governor's Advisory Council on Revenue Estimates (GACRE)
- **October 12.** Joint Advisory Board of Economists (JABE) reviewed the economic outlook for the current biennium (FY 2022 – FY 2024)
- **November 21.** Governor's Advisory Council on Revenue Estimates (GACRE) reviews economic and revenue outlook for current biennium (FY 2022 – FY 2024)
- **December 15.** Governor releases revised forecast and proposed amendments to Chapter 2



Tax Policy Changes Reduce Forecast by \$3.8 b. and Distort Growth Rates, Especially for Refunds

Major Tax Provisions (\$ in millions)	FY 2023	FY 2024	Impacted Source
Tax Rebate	\$1,048.6	\$0	Refunds
Increase Standard Deduction	970.1	811.8	Refunds/Withholding
Military Retirement Subtraction	145.0	156.0	Refunds
Refundable EITC	159.0	156.0	Refunds
Eliminate State Grocery Tax	107.3	265.1	Sales
Total Impact	\$2,430.0	\$1,388.9	

Components of GF Revenues	Impact on Revenues
Ongoing Tax Policy Changes as % of FY 2022 Actuals	-4.9%
Tax Rebates as % of FY 2022 Actuals (one-time)	-3.6%
Exclusive of Policy Changes – Change in Revenues Required to Meet Current Forecast	-5.6%



FY 2023 Performance Through October

- Chapter 2 assumed a GF growth rate of -7.9% in FY 2023
 - Impact of tax policy changes and assumed contraction in recordation, corporate and nonwithholding
- Because FY 2022 actual collections exceeded the revenue forecast by approximately \$1.9 billion, the base against which growth is calculated has increased
- We can now meet the budget forecast – the revenue numbers needed to support appropriations in Ch. 2 – with an annual revenue contraction of 14.0% (excluding transfers)
- Through the first third of the current fiscal year, revenues have decreased 3.1% yet still are exceeding the forecast (now adjusted to reflect year-end actuals) by more than 11 percentage points
- Year-to-date strengths are seen in our two “bread and butter” sources
 - Withholding has increased 8.2% and sales tax collections have grown 17.2% compared to the same 4 months of FY 2022
- We could meet the current forecast for FY 2023 even if revenues contract 18.1% over the remaining 8 months of the fiscal year



Solid Revenue Growth Has Continued

General Fund Revenue Forecast for Fiscal Year 2023

Source	<u>Growth Rates</u> Assumed in Ch. 2 Forecast	<u>Growth</u> Required to Meet Ch. 2 <u>Revenue</u> Forecast	Actual Performance Through October	Nov-June Required to Meet Forecast	Prior Year Nov-June
Withholding	0.3%	(0.1%)	8.2%	(3.8%)	9.4%
Nonwithholding	(2.5%)	(23.4%)	13.2%	(30.3%)	24.4%
Refunds	88.1%	118.4%	373.1%	73.1%	(4.2%)
Net Individual	(10.0%)	(18.0%)	(8.2%)	(21.6%)	18.6%
Sales	1.4%	(2.0%)	17.2%	(9.2%)	7.1%
Corporate	(13.6%)	(12.2%)	(3.4%)	(15.3%)	28.4%
Wills (Recordation)	(8.8%)	(9.2%)	(27.7%)	1.3%	(8.0%)
Insurance	(3.1%)	(4.9%)	--	--	17.6%
Total GF Revenues	(7.9%)	(14.1%)	(3.1%)	(18.1%)	18.1%



Virginia's Revenue Outlook: Baseline Forecast Assumes Mild Recession

- Job growth is anticipated to continue slowing into FY 2024, and wage pressures to decrease as we enter what is anticipated to be a mild recession under the standard forecast scenario
- Baseline forecast is given a 55% probability while the pessimistic alternative is given a 30% likelihood and the alternative optimistic forecast is rated at only a 15% likelihood

Projected Economic Variables

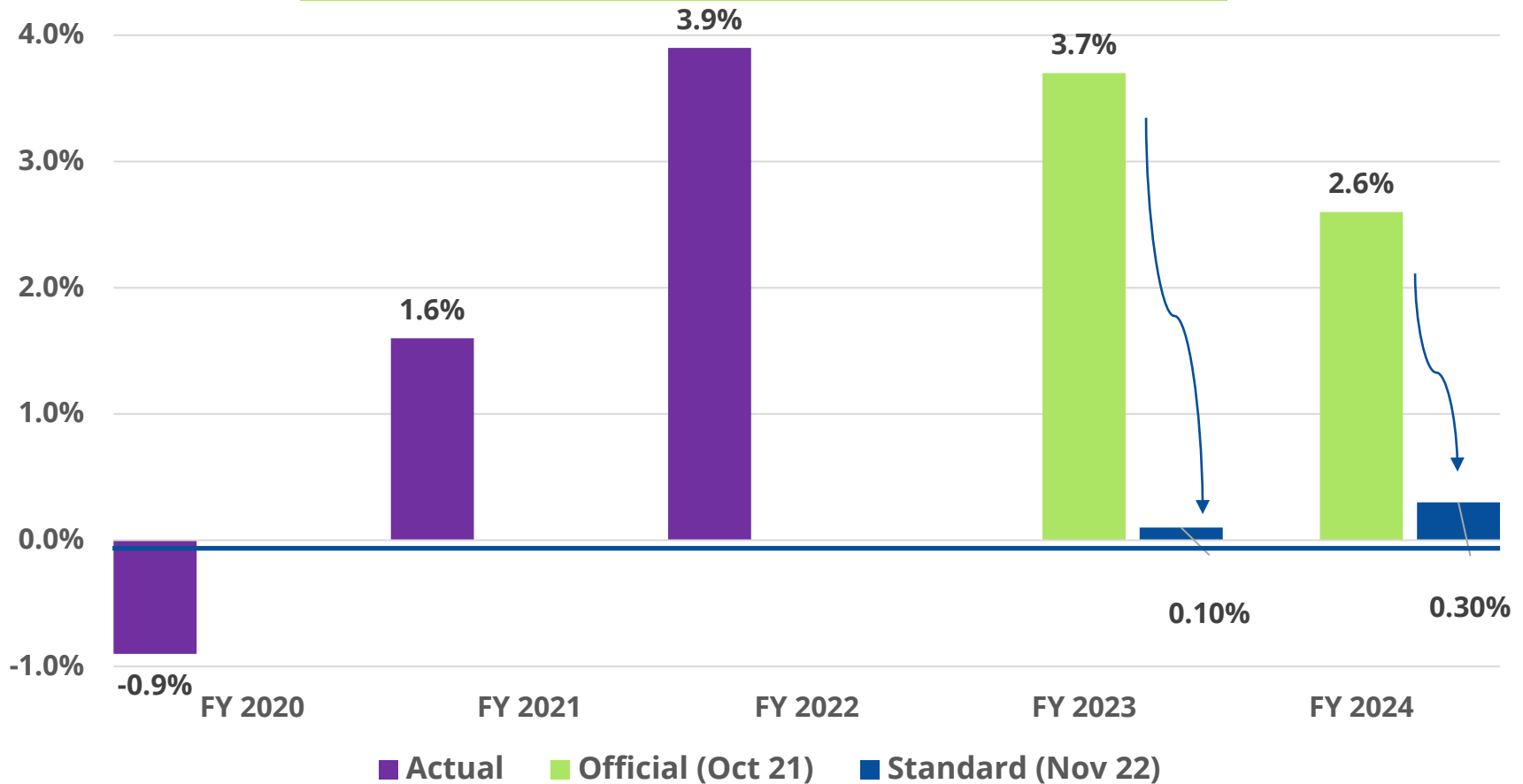
(National Forecast, adjusted for Virginia specific data)

Percent Change	Job Growth	Avg Wage/ Salary Growth	Proprietor Income Growth	Dividends, Int. & Rent Growth	Consumer Spending	Personal Income Growth
FY 23 Oct. Stand.	2.4%	8.0%	1.3%	4.9%	0.9%	5.5%
FY 24 Oct. Stand.	(0.4%)	3.8%	(0.5%)	6.4%	0.6%	4.1%
FY 23 Oct. Pess.	1.7%	7.4%	2.0%	4.5%	0.3%	5.0%
FY 24 Oct. Pess.	(1.7%)	2.3%	2.2%	5.3%	0.4%	3.3%



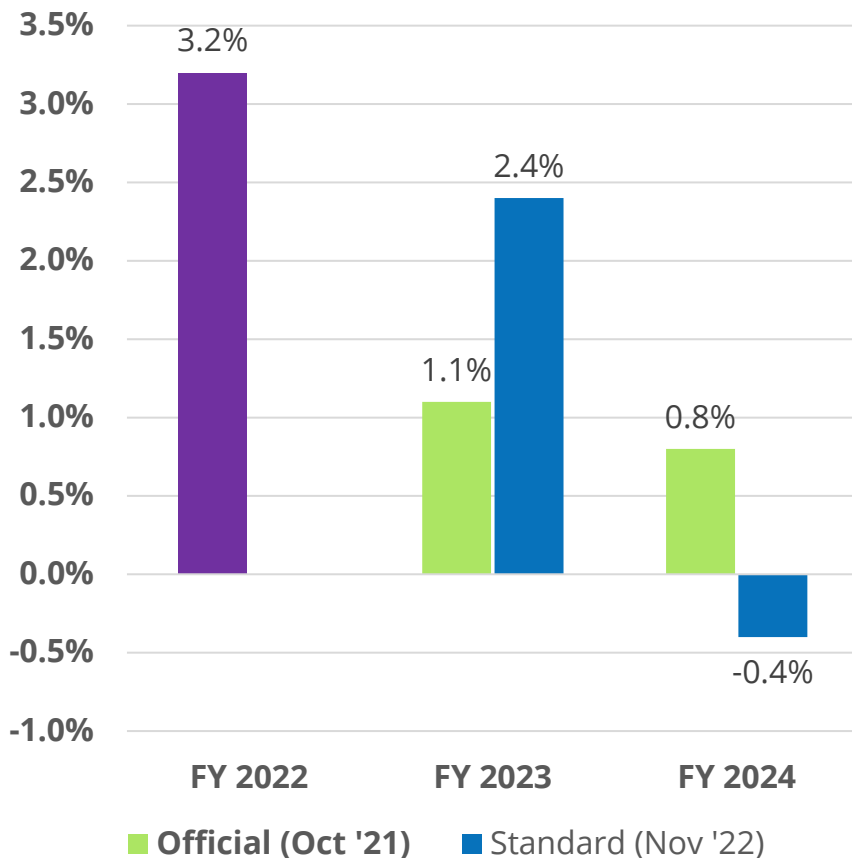
National Outlook Predicts Economic Contraction

U.S. Real GDP Growth, By State Fiscal Year

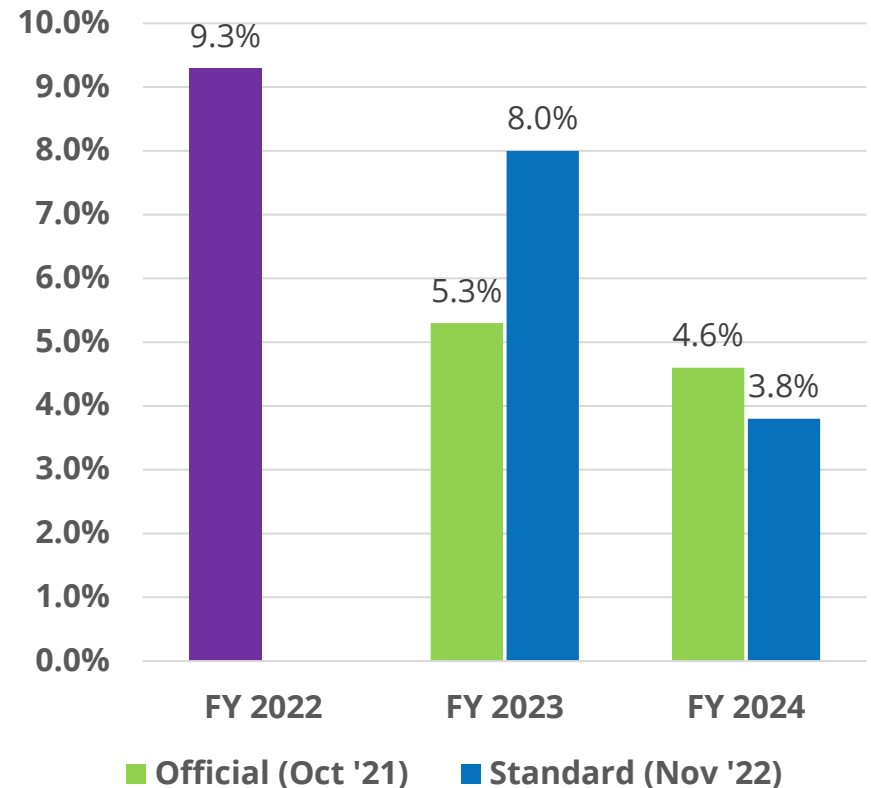


Virginia Employment & Wage Growth

VA Employment Growth

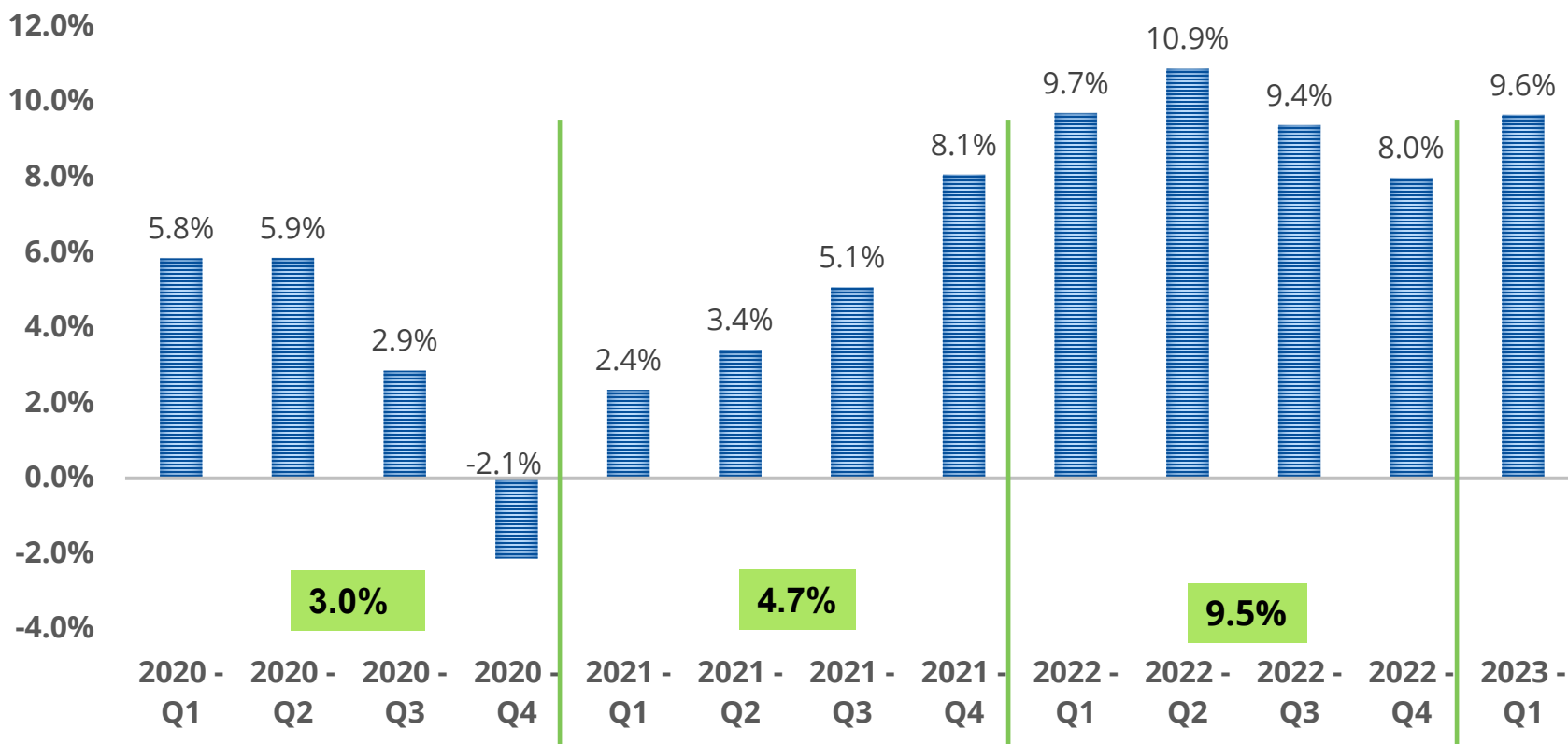


Virginia Wage & Salary Growth



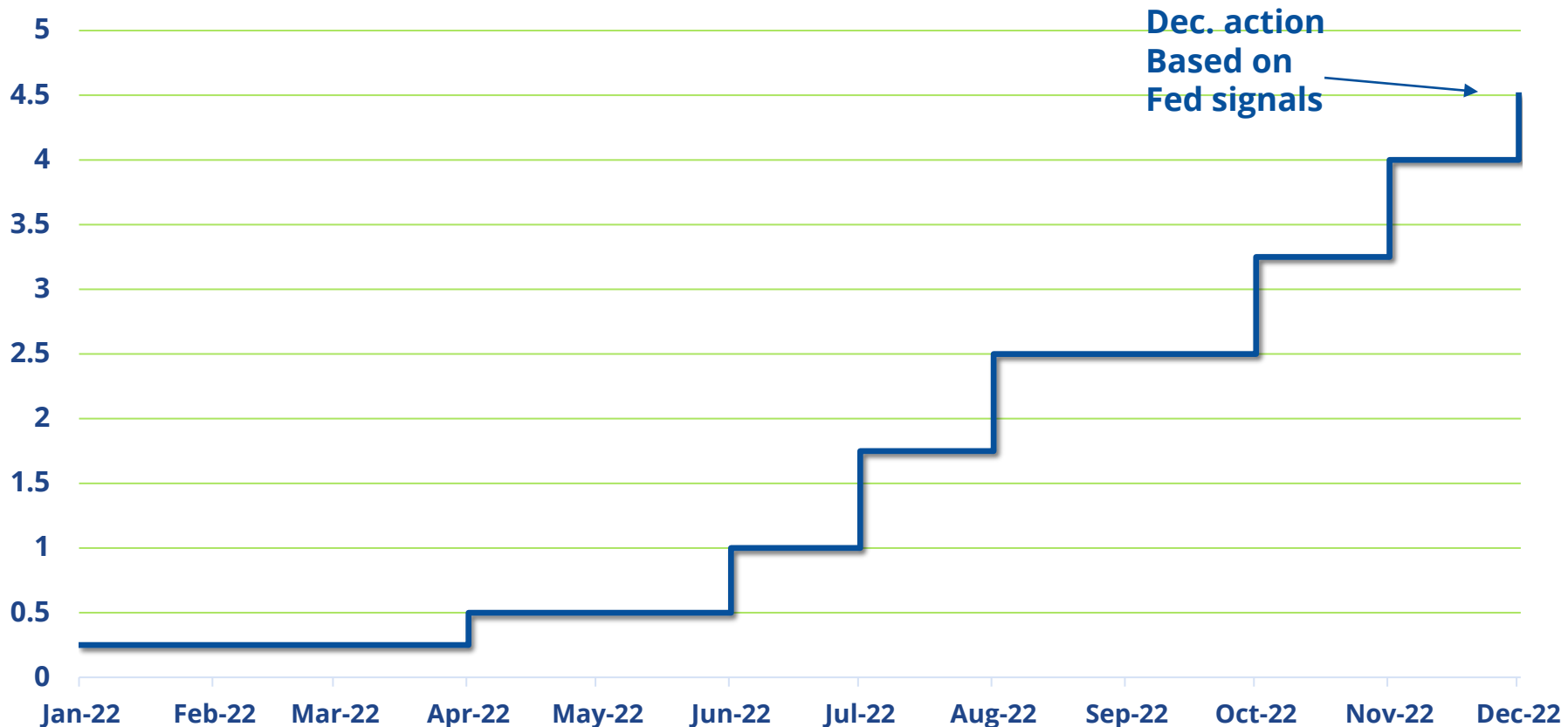
Tight Labor Market and Inflation Have Driven Up Withholding Revenues

QUARTERLY YEAR-OVER-YEAR PERCENTAGE CHANGE IN WITHHOLDING TAXES



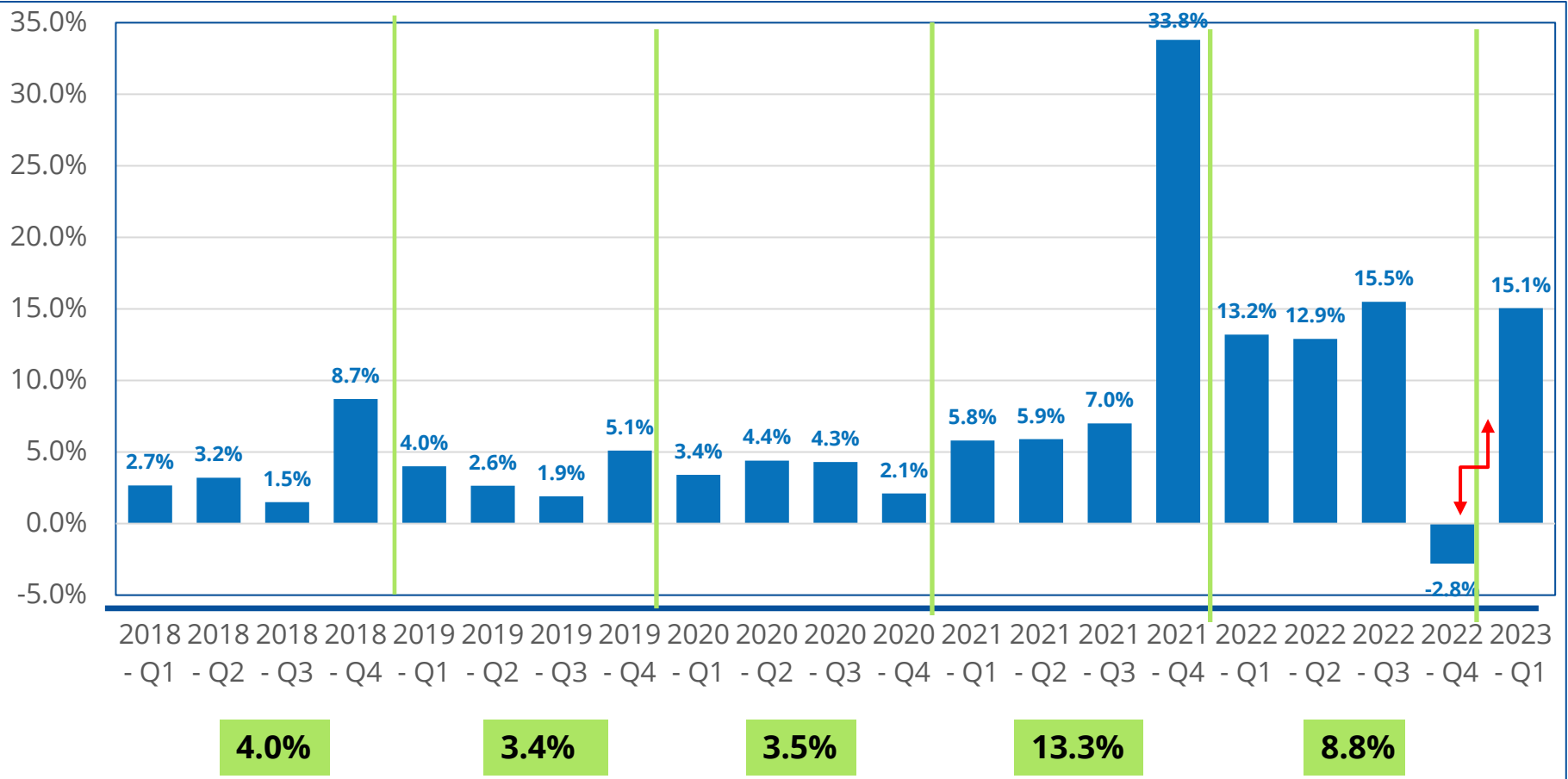
Interest Rates Have Increased Dramatically Due to Fed Actions to Curtail Inflation

Fed Funds Target Rate Calendar Year 2022



Sales Tax Growth Continues – Goods Purchases Decline, Inflation Drives Up Prices

QUARTERLY YEAR-OVER-YEAR CHANGE IN SALES TAX

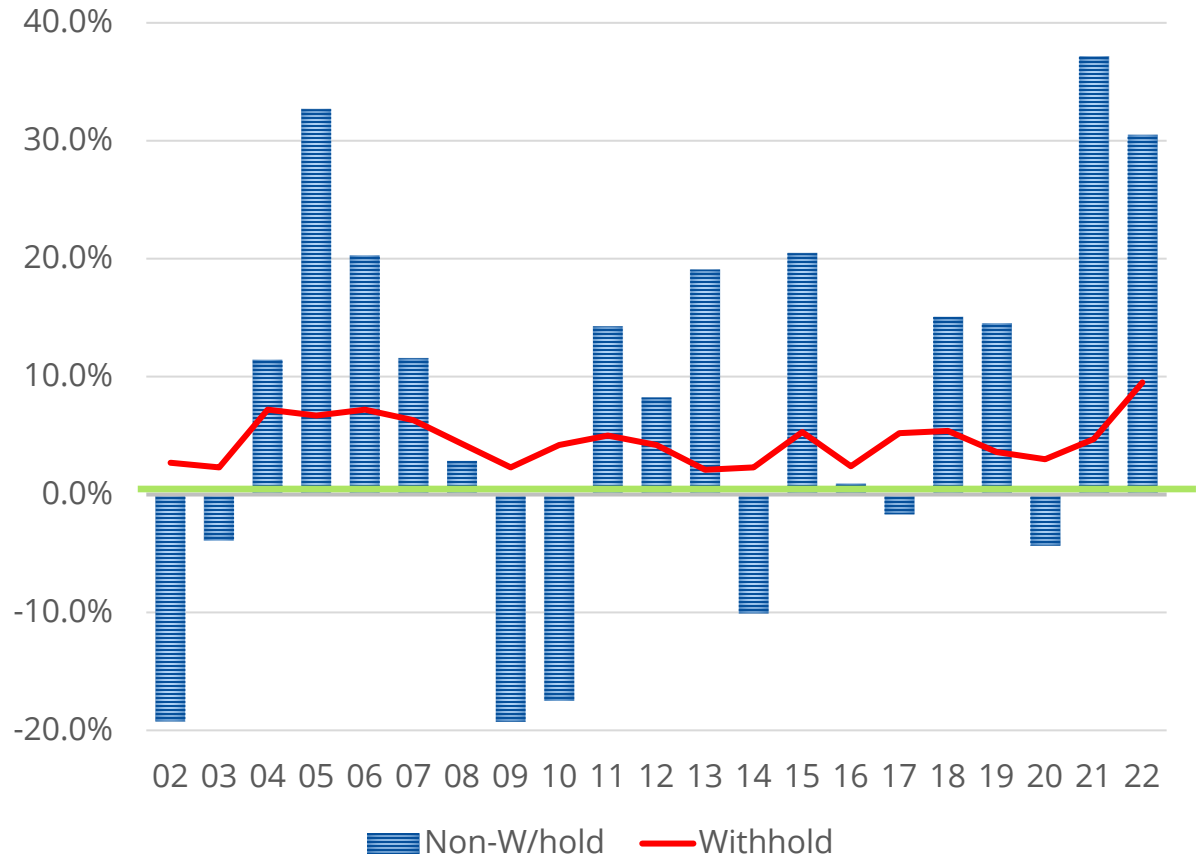


Greatest Risk to the FY 2023 Forecast is Nonwithholding Tax Collections

Nonwithholding historically made up less than 16% of general fund revenues, but has accounted for more than 50% of the forecast error over time because of its volatility

The difficulty in identifying trends is hampered further by the fact that September and January payments often are “safe harbor” payments rather than a reflection of current year wage and non-wage income

NONWITHHOLDING VOLATILITY CONTRASTED WITH WITHHOLDING



Nonwithholding Trajectory is Unsustainable

Nonwithholding payments are heavily backloaded into the end of the fiscal year

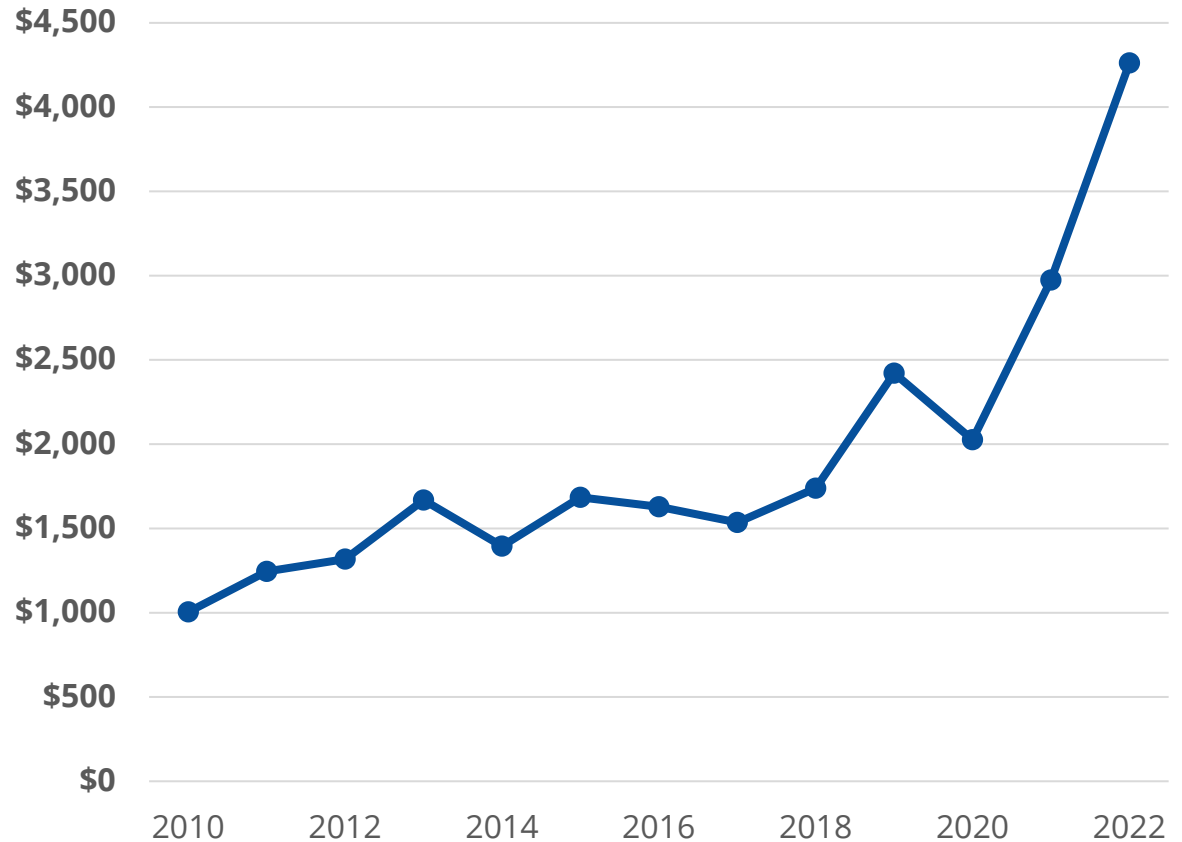
On average, fully 55% of nonwithholding is remitted in the 4th Quarter, and 75% is received in the second half of the fiscal year

Since 2020, 4th quarter nonwithholding payments have increased from \$2.0 billion to \$4.3 billion in FY 2022

Last year's 23.5% share of revenues generated from nonwithholding exceeds the long-term average by 50%

In each of the past five years nonwithholding has comprised the largest percentage of GF revenues ever

4th Quarter Nonwithholding Collections
(\$ in millions)



FY 2023 Has Been Strong, Expect Slower Growth in Remainder of Year

- Adjusted to account for timing issues and tax policy changes, growth would be 8.2% above FY 2022
- Actual revenue collections during first 4 months of FY 2023 fell 3.1% below same period of FY 2022
 - This includes the approximately \$1.0 billion in tax rebates issued in September and October, which amount to between 13-14% of ytd revenues
- Looking at the economic underpinnings of the forecast exclusive of the anomalies related to tax policy changes, you see the following:
 - Still robust but slowing individual income tax collections because of tax policy changes and slower job growth
 - Substantial reductions in recordation taxes with rising interest rates and slowing housing market
 - Softening consumer spending, propped up by price inflation
 - Unsustainable prior year nonwithholding collections



What Adjustments Can We Expect in December Forecast?

- Payroll withholding growth expected to slow, but strong results in first third of year will increase annual forecast
- Individual nonwithholding collections have to decline substantially – only question is how much occurs in FY 2023 vs. FY 2024
- Sales tax collections likely to be revised upwards due to strong YTD collections and impact of inflation even as unit sales decline
- Recordation taxes will continue to fall more than anticipated last Spring
- Minor sources will be adjusted upwards largely based on increased interest earnings on state cash balances



Estimated FY 2022-2024 Forecast

Growth By Source (\$ in millions)	FY 2022		FY 2023		FY 2024	
	Forecast	Actual	Ch 2	HAC Adj.	Ch 2	HAC Adj.
Net Individual	7.5%	18.0%	(18.0%)	(11.9%)	13.9%	6.2%
Sales	6.5%	9.4%	(1.3%)	6.8%	(0.6%)	2.9%
Corporate	32.6%	30.5%	(12.2%)	5.3%	2.8%	3.0%
Recordation	(4.3%)	(3.8%)	(9.2%)	(25.1%)	0.0%	0.0%
Insurance	15.5%	17.6%	(3.1%)	(0.0%)	4.7%	4.0%
All Other Sources	4.5%	5.0%	(4.2%)	5.5%	2.3%	2.0%
Total GF Revenue Growth	8.5%	16.3%	(14.0%)	(7.4)	9.6%	5.1%
General Fund Revenues	\$26,998.3	\$28,934.9	\$24,871.3	\$26,835.6	\$27,263.0	\$28,193.0
Transfers	803.9	814.3	714.7	714.7	733.2	733.2
Total GF	\$27,802.2	\$29,749.2	\$25,586.0	\$27,550.3	\$27,996.2	\$28,926.2
GF Resources Above Forecast		\$1,947.0		\$1,964.3		\$930.0

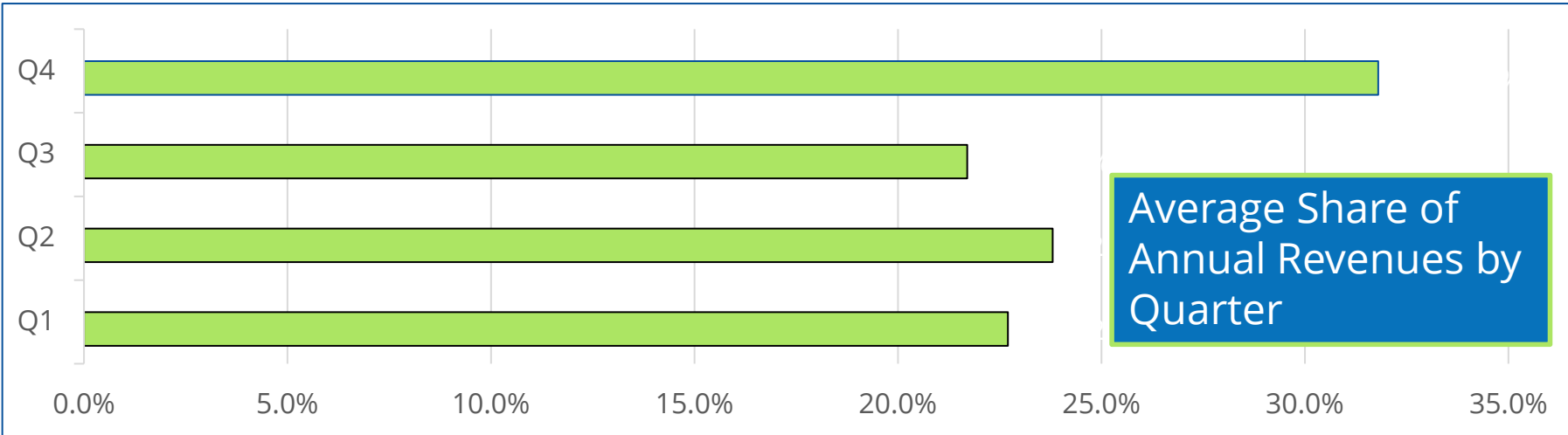
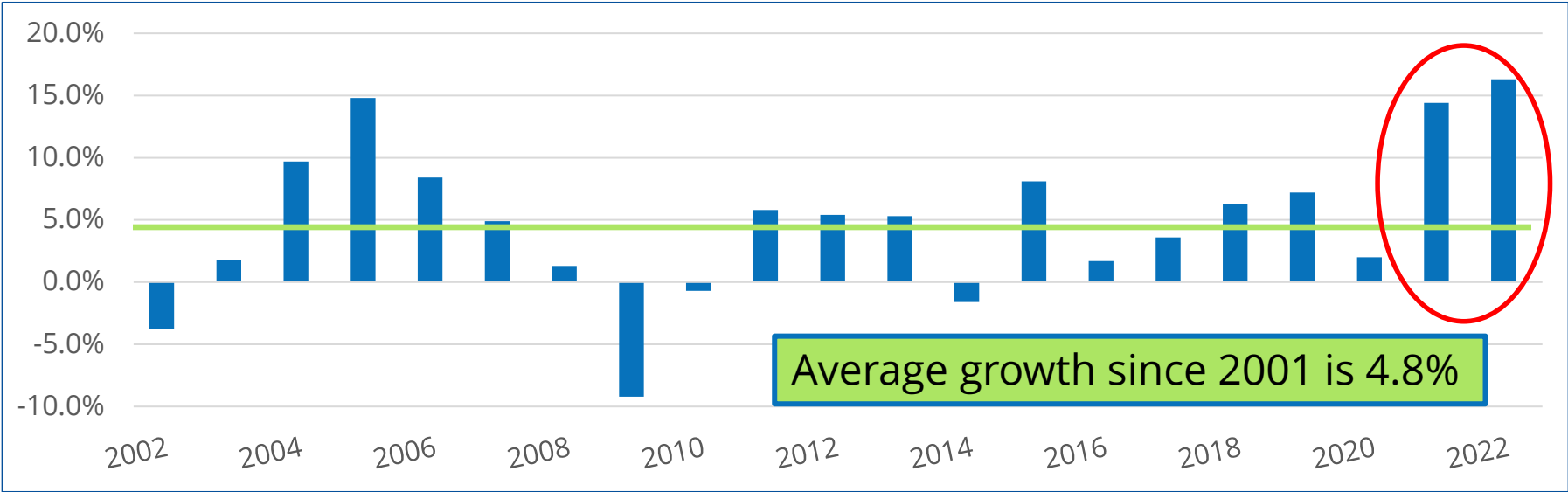


Summary of General Fund Revenue Forecasts (excludes transfers)

\$ in millions	FY 2023	FY 2024	Biennium
Chapter 2	\$24,871.3	\$27,263.0	\$52,134.3
HAC November Estimate	26,835.6	28,193.0	55,028.6
Change from Chapter 2	\$1,964.3	\$930.0	\$2,894.3



Recent Revenue Growth Is Atypical



Potential Forces Impacting Revenue Outlook

- While there are both upside and downside risks, economists view downside risks as the predominant ones:
 - Impact of Fed interest rate actions on current high inflation levels
 - Federal balance sheet reduction
 - Stock market
 - Labor market mismatch and depth of contraction in hiring
 - Timing of (reduced) profit-taking from investment markets
 - Length and breadth of supply chain disruptions
 - Impact of federal elections
 - War in Ukraine



2023 SESSION BUDGET OUTLOOK



Agency Budget Requests

- In September the Department of Planning and Budget sent out a directive to all agencies regarding the submission of budget requests, which were due September 30
- In total, agency non-technical operating budget requests total \$80.9 million in FY 2023 and \$796.6 million in FY 2024 – around \$875 million over the biennium
- Unlike recent years when budget constraints led the Governor to limit requests only to “mandatory” type items and excluded new initiatives or restorations, the same limits were not placed on agency requests this year
- Table on following slide includes totals by each Secretarial area



Agency Budget Requests by Secretariat (\$ in millions)

Secretarial Area	FY 2023	FY 2024	Biennial
Administration	\$1.6	\$30.0	\$31.6
Ag and Forestry	0.0	7.0	7.0
Commerce/Trade	20.0	48.2	68.2
K-12 Education	4.2	9.1	13.3
Higher Education	19.9	158.8	178.7
Executive Offices	0.7	6.0	6.7
Finance	1.1	3.0	4.1
HHR	3.6	201.8	205.4
Judicial	0.0	13.5	13.5
Labor	5.6	7.4	13.0
Natural Resources	21.7	154.1	175.8
Public Safety	2.0	144.3	146.3
Veterans and Defense	0.5	13.4	13.9



HIGHLIGHTS BY SECRETARIAL AREA



Elementary & Secondary Education

- 2023 is a non-rebenchmarking year and as such, minor K-12 cost updates are anticipated for the 2023 Session
- DOE submitted \$11.1 million in GF spending requests:
 - About \$6.1 million of these requests are related to extending the FY 2023 and FY 2024 salary increases to certain state supported positions that were ineligible for the salary increases in Chapter 2
 - Other requests focus on agency staffing, teacher recruitment, early childhood and adult education



Elementary & Secondary Education

- JLARC's *Pandemic Impact on K-12 Education* was released earlier this month and recommends several temporary measures to address COVID-19 impacts:

Recommendations & Policy Options	Low Range	High Range
Math Instructional Improvement Program	\$19,000,000	\$38,000,000
Instructional Assistants In Certain Schools	3,000,000	34,000,000
Retention Bonuses	173,000	96,200,000
Signing Bonuses	147,000	4,100,000
Tuition Assistance for Provisionally-Licensed Teachers	52,100	1,150,000
Expand Va. Tiered Systems of Support	250,000	250,000
GRAND TOTAL	\$22,622,100	\$173,700,000

- As of October 2022, school divisions have \$1.9 billion in ESSER funds remaining and available through the end of FY 2024 – about 65% of amount awarded which could be used to address these needs



Elementary & Secondary Education

Update on 2022 Session School Construction Actions

- \$450.0 million in targeted school construction grant funds on track to be available in Spring 2023
- \$400.0 million in formula-based grants are being distributed to school divisions in FY 2023
- \$200.0 million in Literary Fund loans expected to be available in Spring 2023, another \$200.0 million available in FY 2024
- Casino Revenues:
 - Casino in Bristol opened July 2022, in first quarter generated \$4.8 million in tax revenue for targeted school construction grants, on pace to generate about \$15.2 million for such use in FY 2023
 - Updated estimates from JLARC indicate the four casinos currently in pipeline may generate about \$90.0 million annually for construction grants
- School Construction & Modernization Commission meets December 1, potential additional recommendations forthcoming



Health & Human Resources

- Agency budget requests total \$3.6 million GF in FY 2023 and \$201.8 million GF in FY 2024
 - DSS, DMAS, and DBHDS submissions comprise the majority of the budget requests

DSS

- \$8.3 million GF in FY 2024 to implement recommendations by the Office of the Inspector General to improve Child Protective Services
 - Additional local DSS staffing to improve caseloads & supervision
- \$4.7 million GF in FY 2024 to expand and improve Kinship Care and Kinship Navigator Programs
 - Builds off 2022 legislation for local DSS to have collaborative agreements to facilitate kinship care of children at risk of or in foster care placements
 - Adds local DSS positions to facilitate kinship care for children in foster care



DMAS Budget Requests

- Medicaid and CHIP forecasts do not dominate agency requests for funding
 - \$279.3 million in Medicaid savings in FY 2023 and \$12.3 million in additional spending in FY 2024
 - \$19.0 million GF in CHIP savings in FY 2023 and \$3.1 million GF savings in FY 2024
- \$39.4 million GF in FY 2024 to add 1,400 additional DD waiver slots on top of 600 slots provided in Chapter 2
 - Currently, more than 300 waiver slots provided in the 2020-22 biennium either have not yet begun receiving services or remain unassigned to individuals with a developmental disability
- \$20.0 million in ARPA funding to procure a vendor to assist in the redetermination of Medicaid enrollees at the end of the Federally declared Public Health Emergency
- \$6.2 million GF in FY 2024 to address rates for non-emergency transportation and Part C early intervention services that were overlooked last year
 - Early intervention case services were not included in the continuation of the 12.5% rate increase for Medicaid home and community-based services in FY 2023
- \$1.7 million GF in FY 2024 requested to fund the Medicaid managed care program procurement
 - Merger of CCC Plus and Medallion 4.0 managed care programs was to take effect in January
 - Administration wants to re-procure managed care programs to achieve fiscal efficiency and improve health care delivery, outcomes and access



Behavioral Health

- DBHDS has requested a total of \$93.1 million in GF requests for the biennium
- \$39.8 million GF in FY 2024 to modernize and develop CRCs and CSUs
 - Can update 15 existing CSUs to follow *Crisis Now* model
 - This request would fund 3 new CSUs and 9 new CRCs, in addition to the 1 CSU and 6 CRCs funded in Ch. 2
- \$14.6 million GF in FY 2024 to install Duress System at state facilities
 - Funding for panic alarms worn by staff to improve security and safety at SWVMHI, ESH, WSH, CCCA, and PGH
- \$1.7 million GF in FY 2023 and \$1.7 million GF in FY 2024 to support increased food and utility costs at state facilities
 - State facilities have experienced a 27% increase in the cost per meal served and their cost of electricity has increased by over 14% due to inflation
- \$1.1 million GF in FY 2024 to develop Psychiatric Consultation Line pilot program
 - Like VMAP, this would give any prescribing provider access to a psychiatric provider to help with diagnosis and treatment for adults
- \$1.0 million GF in FY 2024 for legal training on alternative custody options and ECOs/TDOs
 - Can train individuals to become qualified to take custody of individuals under an ECO or TDO
 - Funding to provide training to magistrates, admission pre-screeners, law enforcement, and others to address lack of consistency in ECOs and TDOs



Virginia Retirement System

- Significant financial contributions, the migration to the hybrid plan, and strong investment returns (especially in FY 2021) have improved the funded status of the retirement system
 - Investment return for FY 2021 was 27.5% compared to the assumed rate of return of 6.75%
 - Chapter 1 provided included \$750.0 million in lump sum payments to the VRS in FY 2022
 - An additional \$250.0 million will be provided to address unfunded liabilities using FY 2022 year-end surplus based on contingent appropriations in Ch. 2
- The funded status for the state employee and teacher plans was 79% for year-end June 30, 2022 compared to 75% and 74% for June 2020
- The recent downturn in market conditions could dampen the progress in the short-term
 - Investment return for FY 2022 was 0.6% and the estimated return for the first quarter of FY 2023 is a negative 3%
- Continuing the financial commitments to the VRS could mitigate the short-term impact of the returns being below the assumptions and help enable the VRS to position itself for future market returns



Employee Compensation

- Chapter 2 included funding for a 5% across the board salary increase in each year of the biennium
 - Also included targeted salary actions for public safety personnel, direct care staff at DBHDS facilities and other hard to staff positions
- Based on high inflation rate and continued staffing issues the General Assembly may wish to consider upward adjustment in second year compensation funding
 - The COLA for social security for 2023 has been set at 8.7%
 - The ADP Research Institute's report for October shows annual compensation increases of 7.7% for employees at the same job (increase is above 15% for workers switching jobs)
- The cost of an additional 1% salary increase for state employees is approximately \$43.5 million GF
 - State Supported Local Employees would be an additional \$12.5 million GF
 - The State Share of an additional 1% for SOQ funded positions would be \$54.5 million GF
 - Alternatively, funds could be used for a one-time bonus to offset current inflation



Higher Education Institutions Affordability

- Public colleges and universities received historic general fund increases in the 2022 Session totaling about \$815 million GF over the biennium including:
 - About \$100 million in each year for the general fund share of the 5% salary increases and related fringe benefit costs
 - Institutions are required to generate about \$100 million in each year for the nongeneral fund share
 - About \$120 million per year in new operating support in order to allow institutions to keep tuition increases in FY 2023 to no more than three percent
 - \$170 million over the biennium for increased financial aid
 - \$130 million is provided in FY 2024 for in-state undergraduates
 - \$124 million over the biennium for research, economic development and other institution-specific initiatives
- With two exceptions, institutions did limit tuition increases to the three percent goal
 - In addition, all institutions implemented a tuition waiver for the adopted increases through the use of **one-time funds**
- Three ways to impact higher education affordability:
 - Provide more financial aid
 - Reduce the cost to educate / institutional spending
 - Bend the tuition and fee increase curve



Financial Aid

- How effective is financial aid in achieving affordability?

Financial Aid Grants, % Change FY 06 to FY 21

Institution	Avg Pell Award Growth	Total Pell Growth	Avg State Award Growth	Total State Aid Growth	Avg T & F Growth
4-Years	81%	235%	57%	155%	146%
2-Years	71%	128%	87%	190%	117%

- How extensive is financial aid in achieving affordability?

In-state Undergraduates with Financial Need

Institution	Total Headcount	Students with Need	Received Pell Award	Received State Award
4-Years	142,388	74,383 / 52%	40,934 / 29%	35,955 / 25%
2-Years	145,268	54,921 / 38%	45,722 / 32%	34,801 / 24%



Financial Aid

4-Year In-State Undergraduates with Need By Income

Institution	Headcount	\$0-\$50,000 Family Inc	\$50-\$100,000 Family Inc	GT \$100,000 Family Inc
FY 2006	116,662	28,004	16,918	3,821
FY 2021	142,388	35,909	21,277	17,185
% Change	22%	28%	26%	350%

2-Year In-State Undergraduates with Need By Income

Institution	Headcount	\$0-\$50,000 Family Inc	\$50-\$100,000 Family Inc	GT \$100,000 Family Inc
FY 2006	150,431	36,772	3,155	35
FY 2021	145,268	40,794	12,049	2,078
% Change	-3%	11%	282%	5,837%



Reduce Costs / Spending

- Generally, average spending by Virginia colleges & universities is within the range of other institutions nationally, based on Carnegie Classifications

Carnegie	Institution	25 th Pctile	75 th Pctile	Virginia Weighted Avg Spend	Inst Pctile
2-Year	VCCS, RBC	\$9,432	\$14,423	\$9,259	23%
Baccalaureate	UVA-W, VMI	\$9,729	\$16,805	\$25,268	91%
Masters	CNU, LU, NSU, RU, UMW, VSU	\$13,026	\$17,713	\$17,031	70%
High Research	JMU, ODU, CWM	\$14,409	\$20,309	\$18,807	67%
Very High Research	GMU, UVA, VCU, VT	\$19,002	\$31,339	\$24,289	50%

- It is difficult to see how significant budget savings can be achieved across all institutions, especially at the 2-Year or Very High Research institutions
- Regardless, cost containment should be a goal



Bending the Curve with General Fund for Tuition Moderation

- While forms of tuition moderation have been attempted over the years, beginning in the 2019 Session, the House has successfully achieved tuition moderation in the state budget
 - From FY 2005 to FY 2019, tuition grew by 143% at 4-years and 117% at 2-years
 - However, since the 2020 and the implementation of meaningful tuition moderation, tuition at the 4-years has grown a total of less than 5% and at the 2-years **zero percent**
- Unlike financial aid, all Virginia undergraduates benefit from reduced growth in tuition
- In FY 2024, colleges will be required to generate, at a minimum, over \$100 million from all student groups just to cover the NGF share of the approved 5% salary increases
- If the HAC goal is to minimize the impact on in-state undergraduates, it will require additional general fund
 - Limit increase to 3% would require about \$35 million GF
 - No increase in tuition would require about \$85 million GF



Public Safety & Veterans

- Public Safety and Homeland Security agencies have submitted decision packages totaling \$146.4 million GF
 - State Police has requested a total of \$67.9 million for additional trooper and civilian positions, IT improvements, and two helicopters
 - DOC has requests totaling \$39.6 million related to expansion of inmate health care services, and to bring operation of the Lawrenceville Correctional Center in-house
 - Requests totaling \$10+ million have also been submitted by the Cannabis Control Authority, VDEM, and DCJS
- Veterans and Defense Affairs agencies have requested a total of \$14.0 million GF
 - The Department of Veterans Services has requested \$10.9 million for additional investments in programming, targeted salary increases, and startup funding for operations at the new Veterans Care Centers in Virginia Beach and Fauquier County



Ag, Forestry, and Natural Resources

- Less the required WQIF deposit, Natural Resource agencies have requested a total of \$66.5 million GF in additional resources
 - DCR requested a total of \$20.4 million, including support for equipment replacement, additional support for park operations, as well as park and natural heritage area access improvements
 - DEQ submitted \$11.5 million in general fund requests, primarily focused on IT improvements and equipment replacements
- While not submitted as a general fund request, DEQ has identified an additional need of \$229 million to support WQIF supported point-source projects due to bid submissions for projects being substantially more expensive than initial estimates
- Agricultural and Forestry agencies requested an additional \$7.0 million GF in resources
 - Of this amount, \$5.2 million has been requested by VDACS to meet their expected demand for grants from the Agriculture and Forestry Industries Development Fund (AFID)



Commerce and Labor

- \$81.2 million in total biennial GF requests from agencies under the Commerce and Labor Secretariats and the Port of Virginia for economic development initiatives
- Major GF spending requests include:
 - \$21.1 million over two years to convert existing Port related tax credits to cash grants, per recent JLARC recommendations
 - \$10.6 million over two years to continue current staffing levels in the Virginia Employment Commission's appeals division to reduce the backlog of appeals
 - \$10.0 million over two years for the Department of Energy to map the state's geologic resources (\$50.0 million in total resources needed)



Commerce and Labor

- Major GF spending requests (continued):
 - \$8.0 million in FY 2024 for targeted industry development programs and activities at the Virginia Innovation Partnership Authority (VIPA)
 - \$7.3 million in FY 2024 for the Virginia Economic Development Partnership Authority to expand its marketing and lead generation activities
 - \$6.0 million in FY 2024 for the Community Business Launch and Virginia Main Street programs at the Department of Housing and Community Development
 - \$5.0 million in FY 2024 for the Virginia Innovation Partnership Authority to build Virginia's entrepreneurial ecosystems with per capita and competitive investments
- Anticipate proposals for economic development sites and workforce development



General Government Requests

- General government entities requested \$158.2 million (\$57.5 million GF) and 62.0 FTEs over the biennium

Judicial Branch and Executive Offices

- \$13.5 million GF for salary realignment of public defenders, increased funding for specialty dockets, and an increase in the retired judge per diem
- \$18.6 million for the Office of the Attorney General for positions for litigation, IT, tobacco enforcement, and retail crime, a witness protection program, and increased funding for the violent crime taskforce (\$10.0 million in ARPA)

Administration & Finance

- \$26.5 million GF for statewide constitutional offices, \$3.8 million GF for finance initiatives and staffing, \$3.1 million GF for HR systems and workforce development, \$2.0 million GF for regulatory compliance and lab testing in DGS, and \$18.7 million NGF for VITA to reflect service expansions

Independent Agencies - \$66.3 million NGF

- \$40.3 million for the Lottery to allocate casino payments to localities, \$16.0 million for VA529 for higher ed access and affordability programs, and \$10.0 million for the SCC for costs associated with the Health Benefit Exchange



MAJOR BUDGET DRIVERS



Mandatory Budget Drivers

General Fund \$		FY 2023	FY 2024
Elementary and Secondary Education			
	Update Lottery Proceeds Projection	\$9,500,000	(\$4,300,000)
	Update Sales Tax Projection – net impact	TBD	TBD
	Update Fall Membership & ADM projection	TBD	TBD
Health and Human Resources			
	DMAS – Medicaid Forecast	0	12,300,000
	DSS – COLA Rate Increase for Foster Care & Adoptions	0	2,300,000
Natural Resources			
	DCR – WQIF Deposit	0	109,300,000
GRAND TOTAL		\$9,500,000	\$119,600,000



High Priority Budget Drivers

General Fund \$		FY 2023	FY 2024
Administration			
	Comp Board – Fund 25% of Unfunded/Underfunded Positions	\$0	\$5,500,000
	DGS – Sustain Enhanced TB Testing	0	1,200,000
	VITA – GF for Increased Service Charges	TBD	TBD
Commerce & Trade, Labor			
	VEDP – Economic Development Sites	TBD	TBD
	VEC – Maintain Staffing to Reduce Appeals Backlog	3,800,000	6,800,000
Elementary and Secondary Education			
	Direct Aid - Recognize Local Salary Increases for State Operated Program Staff	1,200,000	2,600,000
	Direct Aid - Governor’s School Salary Increase Correction	1,100,000	1,100,000
Higher Education			
	Minimize In-State Undergraduate Tuition (0% to 3%)	\$0	35,000,000-85,000,000
	Address Targeted Financial Aid	0	10,000,000-15,000,000
	Workforce Credential Grant	\$0	10,000,000
	ODU Health System	0	TBD



High Priority Budget Drivers

General Fund \$		FY 2023	FY 2024
Other Education/Museums			
	LVA – Secure IT Infrastructure	\$0	\$1,400,000
Health and Human Resources			
	DBHDS – CSB Staff Bonuses	0	25,000,000-130,000,000
	DBHDS – Modernize and develop CRCs & CSUs	0	39,800,000
	DBHDS – Install Duress System at State Facilities	0	14,600,000
	DSS – Address OSIG Child Protective Services Recommendations	0	8,300,000
	VDH – Stabilize Local Health Dept. & Chief Med. Examiner Operations (salary adj./rent Increases)	0	7,300,000
	DSS – Continue & Expand Kinship Care & Navigator Programs	0	4,700,000
	DMAS – Restore Early Intervention Svs. 12.5% Rate Increase	0	3,200,000
	DBHDS – Increased Food & Utilities at State Hosp.	1,700,000	1,700,000
	VDH – Cybersecurity & IT Systems & Staff	0	1,600,000
	DBHDS – Pilot Psychiatric Consultation Line	0	1,100,000
	DBHDS – Legal training Alt. Custody/ECOs/TDOs	0	1,000,000



High Priority Budget Drivers

General Fund \$		FY 2023	FY 2024
Natural Resources			
	DEQ – Implement an e-Permitting Program	\$0	\$2,500,000
	DEQ – IT Security Compliance Upgrades	0	2,000,000
Public Safety			
	VSP – IT Transformation Activities	0	16,800,000
	DOC – Expand MAT Program for Opioid Use Disorder	0	7,000,000
	DOC – Expand Dental Program	0	6,200,000
	DOC – Provide 24 Hour Nursing Coverage	0	4,100,000
	DCJS – Replace Credentialing Management System	0	2,000,000
	VSP – Upgrade VCIN System	0	2,400,000
GRAND TOTAL:		\$ 7,800,000	\$152,700,000- 257,000,000



Comparison of Available Resources To Potential Budget Drivers

\$ in millions	FY 2023	FY 2024	Biennium
HAC Estimate – Revenue Increase	\$1,964.3	\$930.0	\$2,894.3
Unappropriated Balance (Ch. 2)	497.8	(479.1)	18.7
Budget Savings	<u>498.9</u>	<u>23.3</u>	<u>522.2</u>
Total Additional Resources (Compared to Ch. 2)	\$2,861.2	\$474.2	\$3,335.4
Mandatory Spending	9.5	119.6	129.1
High Priority Spending	<u>7.8</u>	<u>257.0</u>	<u>264.8</u>
Total Spending Required	17.3	376.6	393.9
Available Resources after Budget Drivers Funded	\$2,843.9	\$97.6	\$2,941.5



Looking Ahead to 2023 Session

- Using excess FY 2023 revenues for ongoing programs could lead to structural imbalance heading into the next biennium
- Budget drivers are quite low
- Suggest again focusing on one-time expenditures to address deferred needs and avoid overcommitting in future years
 - Revenue reserve funds are at maximum
 - Increased expenditures might be required to maintain current service levels
 - Support VRS
 - Utilize cash for existing capital outlay commitments
 - Address cost increases in things like point-source projects already authorized
 - Provide employee bonuses to mitigate wage loss compared to inflation
 - Invest in economic development to support future growth
 - Make IT investments in outdated systems
- Reevaluation might be required in Mid-Session reforecast

