

HB/SB 29

Summary

Proposed Amendments for the 2010-12 Budget

The proposed amendments to the 2010-12 budget (HB/SB 29) include \$386.0 million in general fund resources above those assumed in Chapter 890, as adopted by the 2011 General Assembly. These resources include: (1) a net balance addition of \$302.7 million; (2) a \$131.0 million net revision to the general fund revenue forecast, and (3) transfer reductions totaling \$47.7 million. These changes total \$386.0 million and, when combined with the \$2.1 million unappropriated balance contained in Chapter 890, provide \$388.1 million in additional resources.

HB/SB 29 also includes proposed net spending reductions of \$157.8 million. When added to available resources, a balance of \$546.0 million remains to be carried forward into the next biennium, as a beginning balance in HB/SB 30.

Additional General Fund Resources Available for Appropriation (\$ millions)			
	<u>Chapter 890</u>	<u>Revised</u>	<u>Difference</u>
Unreserved Balance	\$491.2	\$1,067.0	\$575.7
FY 2012 Balance Adjustments	229.4	(43.6)	(273.0)
FY 2012 Revenue Estimate*	15,595.6	15,726.6	131.0
FY 2012 Transfers	468.6	420.9	(47.7)
Additional GF Resources			\$386.0
Unappropriated Balance (Ch. 890)			2.1
HB/SB 29 Net Spending Reduction			<u>157.8</u>
HB/SB 29 Carry Forward Balance			\$546.0
<i>*Including proposed policy adjustments.</i>			

Net Balance

FY 2011 ended with a GF balance above what was expected, primarily as a result of \$310.7 million in revenues and transfers above the estimate and \$170.5 million in unspent agency balances.

After the proposed reappropriation of \$138.4 million in unspent capital, mandatory and discretionary agency balances, along with technical adjustments, \$302.7 million remains as the net GF balance addition reflected in HB/SB 29.

From this amount, \$132.7 million will be carried forward into FY 2013 for the Constitutionally-required Rainy Day Fund payment related to FY 2011 revenue collections, \$50.3 million will be carried forward into FY 2013 for appropriation to the Water Quality Improvement Fund (10 percent of FY 2011 revenue surplus and unreserved balance). The Governor proposes that about \$18.0 million be carried forward into FY 2013 for application to the VRS repayment.

Finally, HB/SB 29 appropriates \$30.0 million for a proposed Federal Action Contingency Trust Fund (FACT) to mitigate potential federal spending reductions and \$67.2 million to the Transportation Trust Fund (2/3rds of unobligated year-end balance).

Changes in Revenue

Recommended adjustments to the FY 2012 revenue forecast reflect the larger revenue base generated by the higher than anticipated FY 2011 revenue collections, offset by a softening of the economic growth rate from what was assumed in Chapter 890. Specifically, "economic" growth is assumed to be 4.7 percent rather than 6.0 percent that was assumed last year when the budget was adopted.

Year-to-date revenue growth through November is 6.6 percent. Adjusting for last year's change in the accelerated sales tax policy which causes growth to be overstated, year-to-date "economic-based" growth is 5.9 percent, against the 4.7 percent assumption included in HB/SB 29.

The introduced budget contains \$192.6 million in additional revenue from this "economic-based" growth. A proposed tax policy change would reduce the number of retailers required to make an accelerated sales tax payment in June by raising the threshold to \$26.0 million in annual sales. This would result in a \$50.0 million reduction in GF revenue. When this tax policy change and technical adjustments are included, the projected FY 2012 growth rate is 4.6 percent, or \$131.0 million in additional revenue.

Estimate of General Fund Taxes by Source FY 2012
(\$ in millions)

	Estimated FY 12	Estimated % Growth	Through November % Growth	Change from FY 12 Official
Net Individual	\$10,533.0	5.9%	7.7%	\$203.4
Corporate	827.8	0.7%	(0.7)%	(3.8)
Sales	3,066.0	1.8%	5.4%*	(49.5)
Insurance	287.3	2.0%	0.0%	(2.3)
Recordation	322.9	10.8%	2.4%	21.8
All Other	<u>689.6</u>	<u>0.2%</u>	<u>2.6%</u>	<u>(38.6)</u>
Total Revenues	\$15,726.6	4.6%	6.6%**	\$131.0

* Sales tax without AST is 2.4%.
** Total growth without AST is 5.9%.

Changes in Transfers

Proposed transfer reductions of \$47.7 million in HB/SB 29 include technical adjustments to increase the ABC profits transfer, reduce interest earnings diverted from nongeneral fund accounts, and reduce the ¼ cent sales tax transferred for K-12, consistent with the actual collection pattern in FY 2011.

In addition, the proposed date for sale of the Alexandria regional ABC office is extended from FY 2012 to FY 2014.

General Fund Resource Changes Since April 2011
(\$ in millions)

<u>Balance Adjustments:</u>	<u>2010-12</u>
Unreserved Fund Balance, Comptroller's August Report	\$841.1
Amount already appropriated in Chapter 890	<u>(265.4)</u>
Additional Unreserved Balance	\$575.7
Rainy Day Fund Reserve (FY 2011 collections)	\$132.7
Less: Non-general funds included per GASB	<u>(202.6)</u>
Net GF Balance, June 30, 2011	\$505.8
Return unspent agency balances (revert \$36.9 million)	(\$138.4)
Return TTF share of accelerated sales tax	(26.0)
Natural Disaster Reserve	(17.3)
Contingent appropriation: Unemployment TF interest	(5.9)
Contingent appropriation: BRAC	(7.5)
Contingent appropriation: Sheriffs per diem	(7.4)
Other technical adjustments	<u>(0.6)</u>
Total Additional Balances	\$302.7
<u>Revenue Amendments:</u>	
December Tax Re-forecast	\$192.6
2nd step of Accelerated Sales Tax reversal (June 2012)	(50.0)
Extend time for Brunswick sale to FY 2014	(20.0)
Various amounts related to sale of real estate	1.3
Other technical adjustments	<u>7.1</u>
Total Revenue Adjustments	\$131.0
<u>Transfers:</u>	
ABC profits	\$5.5
Local Real Estate/SOQ Fund (sales tax reforecast)	(9.0)
Interest earnings diverted from NGF accounts (reforecast)	(29.5)
Extend time for sale of Alexandria ABC office to FY 2014	(10.2)
Court debt collections	(1.6)
VITA operating efficiencies	(0.6)
Alicia's Law appropriation	(2.1)
Other technical adjustments	<u>(0.2)</u>
Total Transfer Amendments	\$(47.7)

Public Education

- **Direct Aid to Public Education**
 - *Reflect Increased Sales Tax Projections.* Provides a net increase of \$2.1 million GF based on increased sales tax projections for FY 2012.
 - The revised revenue forecast projects an increase of \$4.7 million GF from the one and one-eighth cent sales tax dedicated to public education. A portion of the additional sales tax increase is offset by a \$2.6 million GF reduction to the SOQ Basic Aid payment.
 - *Capture Savings Based on Projected Enrollment and Participation.* Reduces general funds by a total of \$8.5 million GF as follows:
 - *Fall Membership and Average Daily Membership (ADM) Enrollment.* Reduces funds by \$5.0 million GF to reflect a revised enrollment projection of 1,215,736 students, some 1,202 fewer students than the number estimated in Chapter 890.
 - *Incentive and Categorical Programs.* Captures a net \$3.1 million GF across various incentive and categorical programs for changes in Fall Membership, participation rates, and test scores.
 - *Remedial Summer School and ESL.* Reduces by \$201,065 GF, to reflect actual numbers of students in Remedial Summer School and English as a Second Language (ESL) programs.
 - *National Board Certification Bonuses.* Reduces by \$142,000 GF, to reflect actual numbers of teachers eligible to receive the grant awards in 2012.
 - *Reflect Increase in Projected Lottery Proceeds.* Adjusts funding to reflect an increase in projected Lottery Proceeds of \$18.5 million in FY 2012 of which \$9.0 million was earned in FY 2011.

Health and Human Resources

- **Comprehensive Services For At-Risk Youth and Families**
 - *Adjust CSA Appropriation to Reflect Caseload and Utilization Trends.* Proposes a reduction of \$24.8 million GF in FY 2012 to reflect a forecast of lower utilization of CSA services.

- **Department of Health**
 - *GF to Offset Loss of Federal Funds for TB Prevention and Control.* Adds \$49,331 in FY 2012 to offset the loss of federal funds for the prevention, identification, and treatment of tuberculosis (TB). The program recently experienced a 20 percent reduction in federal funding.

- **Department of Medical Assistance Services (DMAS)**
 - *Medicaid Utilization and Inflation.* Captures savings of \$85.4 million GF and \$80.8 million in matching federal Medicaid funds from the impact of lower Medicaid managed care rates in FY 2012. Rates were originally expected to increase by 7 percent, but actually declined by 3 percent in FY 2012.
 - *Reduce Medicaid State Child Health Insurance (SCHIP) Funding to Align Spending with Projected Costs.* Reduces spending by \$5.4 million GF and \$10.1 million in federal matching funds in FY 2012 for Medicaid-eligible low-income children living in families with incomes between 100 and 133 percent of the federal poverty level. The federal government matches Medicaid expenditures for these children at the same rate as that provided for the Family Access to Medical Insurance Security (FAMIS) program (about 65 percent). Projected savings are the result of lower than projected managed care rates.
 - *Reduce FAMIS Funding to Align Spending with Projected Costs.* Reduces spending by \$1.3 million GF and \$2.4 million NGF in FY 2012 in the FAMIS program to adjust spending for lower than projected managed care rates.
 - *Fund Eligibility Review Program.* Adds \$761,469 GF and a like amount of federal Medicaid matching funds in FY 2012 to fund an ongoing eligibility review program as mandated by the federal government for the Medicaid and FAMIS programs. The agency will contract with a vendor to conduct the eligibility reviews and to establish a permanent quality assurance program. These reviews will measure improper payments and produce error rates for each program to enable the agency to make program improvements to reduce inappropriate payments.
 - *Adjust Funding for Involuntary Mental Commitments.* Adds \$670,567 GF in FY 2012 for increased costs of hospital and physician services for individuals subject to an involuntary mental commitment.
 - *Add Funds for Mandated Updates to the Medicaid Management Information System.* Provides \$540,591 GF and \$2.2 million NGF in FY 2012 to update electronic data interchange transaction and hospital code sets in the Medicaid Management Information System required by federal law. Electronic data interchange transactions are required to be upgraded in 2012 and diagnosis and inpatient hospital code sets must be upgraded by October 2013. Funding for this project was provided last year based on preliminary estimated costs (\$501,624 GF

and \$4.5 million NGF in FY 2011 and \$618,904 GF and \$5.6 million NGF in FY 2012); however, a detailed assessment has been completed and the additional funding reflects this revised estimate.

- **Department of Behavioral Health and Developmental Services**

- *Fund Electronic Health Records.* Adds language to adjust the amount of special fund balances the agency may retain from \$20.0 million to \$35.0 million to allow these funds to be used for the implementation of electronic health records in the 2012-14 biennium. Special funds are derived from third party payments for state facility care from Medicare, Medicaid and other payors. Additional special fund revenues are expected to be received from federal Medicare incentive funds related to this effort. Without this language change, special fund balances above the \$20.0 million cap, as of July 1, 2012, would revert to the general fund.

- **Department of Rehabilitative Services**

- *Maintenance of Effort for Vocational Rehabilitation Program.* Provides \$3.0 million GF in FY 2012 for the state's share of funding required to match federal funding for the Vocational Rehabilitation (VR) program. The state's share of funding is 21.3 percent. Expenditures in the VR program have increased in recent years due to increases in federal grant allotments. However, current state funding is no longer adequate to meet the federal matching and maintenance of effort requirements. Funding will allow the agency to maintain current service levels for the program. Language is proposed in HB/SB 30 to ensure the agency seeks approval before accepting additional allocations of federal VR funding which would obligate additional funding by the Commonwealth.

- **Department of Social Services**

- *Foster Care and Adoption Forecast.* Provides \$6.4 million GF and \$500,000 NGF in FY 2012 for forecast changes to the foster care and adoption subsidy programs. Adoption subsidies are projected to increase by \$8.1 million GF in FY 2012. This increased cost is offset by projected declines in Title IV-E foster care expenditures of \$1.7 million GF.
- *Unemployed Parents' Cash Assistance Program Increases.* Provides \$1.5 million GF in FY 2012 to meet estimated costs of caseload growth in the unemployed parents' cash assistance program. It is anticipated that as the economy recovers caseload growth in this program will slow.
- *Fund Cost Increases for Providing SNAP Benefits.* Adds \$286,845 GF and \$286,842 NGF in FY 2012 to pay for increases in the electronic benefit transfer (EBT) transactional costs associated with providing SNAP (formerly Food Stamps) benefits. Caseload has almost doubled during the recession from an average monthly volume of about 240,000 in FY 2008 to about 458,000 in FY 2012. The department contracts with a vendor to electronically administer each family's

monthly benefit. The amount of the contract fluctuates based on the volume of monthly transactions.

Public Safety

- **Department of Corrections**

- *Inmate Medical Costs.* Includes \$7.4 million GF for FY 2012 for the increased cost of off-site medical care, which includes inpatient and outpatient hospital care and services provided by private specialists.
- *Lawrenceville Correctional Center.* Adds \$495,505 GF for FY 2012 for approximately half of the increased contract costs for Virginia's only privately-operated prison, based on the increase in the Consumer Price Index, as well as additional security staffing and programming. No additional funding is provided in HB/SB 30 for continuation of these costs.
- *Telephone System.* Provides \$582,645 GF for FY 2012 for the installation, operation and maintenance of a new telephone system for nine correctional facilities. The Commonwealth is under contract with Northrup Grumman to install this system. The old telephone systems had deteriorated to the point that the facilities were frequently without telephone service.
- *Indirect Cost Recoveries.* Includes language exempting federal funds received under the Residential Substance Abuse Treatment program from the requirement to pay statewide and agency indirect cost recoveries into the general fund.
- *Local Infrastructure Debt Service.* In the event a state correctional facility is closed, language directs the department to continue to pay its proportional share of the debt service for the extension of local utilities to serve the correctional facility, subject to the previously agreed upon schedule.

- **Department of Juvenile Justice**

- *Appropriation Reduction.* Captures a savings of \$3.0 million GF for FY 2012 resulting from turnover and vacancy.

Judicial

- **Supreme Court of Virginia**
 - *Criminal Fund.* Provides an additional \$1.75 million GF for FY 2012 for the cost of appointing attorneys to represent an increased number of indigent defendants in criminal cases, and other increased costs associated with the Criminal Fund. In the budget bill, this total amount is distributed to the Supreme Court, Court of Appeals, Circuit, General District, Juvenile and Domestic Relations District, and Combined District Courts. Actual expenditures for the Criminal Fund in FY 2011 totaled \$106.8 million GF, including \$3.8 million for waivers for payments to court-appointed attorneys. The caboose bill, as introduced, includes \$110.4 million GF for the Criminal Fund for FY 2012.
 - *Involuntary Mental Commitment Fund.* Provides an additional \$75,090 GF for FY 2012 for the cost of involuntary mental commitment proceedings. In the budget bill, this total amount is distributed to the General District, Juvenile and Domestic Relations District, and Combined District Courts. The associated cost of hospitalization is included in the budget for the Department of Medical Assistance Services (DMAS). Actual expenditures for the Involuntary Mental Commitment Fund in FY 2011 totaled \$6.4 million GF, not including the DMAS portion. The caboose bill, as introduced, includes \$6.4 million GF for FY 2012, not including DMAS.

Commerce and Trade

- **Economic Development Incentive Payments**
 - *Remove Funding for Biofuels Production Fund.* Proposes to remove the entire \$4.5 million GF in FY 2012 from the Biofuels Production Fund as the only producer that would have qualified for payments went out of business and did not meet production requirements.
 - *Adjust Funding for Rolls Royce Training Grants.* Proposes a reduction of \$3.0 million GF in FY 2012 from a supplemental training grant that was part of the incentives for the Rolls Royce facility in Prince George County. The company has not yet met employment level targets to qualify for this funding.
- **Department of Housing and Community Development**
 - *Provide Funding for Fort Monroe Authority.* Proposes an increase of \$2.6 million GF in FY 2012 for the Fort Monroe Authority due to loss of federal funding and

lower revenue than anticipated from rental of commercial and residential properties on the Fort. Also will provide funding for rewiring of fiber-optic and cable networks and for operating utility systems. This will bring the FY 2012 GF appropriation for the Authority to \$4.8 million.

- **Virginia Tourism Authority**
 - *OpSail 2012.* Proposes an increase of \$250,000 GF in FY 2012 to promote and support the OpSail 2012 event, which Virginia is hosting. This funding, which is in addition to \$1.0 million GF provided in Chapter 890, is to be used for security and marketing of the event.

Technology

- **Virginia Information Technologies Agency (VITA)**
 - *Eliminate Double-Counted Technology Savings.* Proposes a general fund increase of about \$1.4 million to eliminate previously approved reductions in overhead charges for information technology services. These reductions were built into the revised information technology rates that went into effect on July 1, 2010 and September 1, 2011. These rates are paid monthly by state agencies for VITA and Northrop Grumman's services.

Transportation

- **Department of Transportation**
 - *Appropriate Two-Thirds of FY 2011 Surplus to the Transportation Trust Fund.* Includes an appropriation of \$67.2 million GF, which represents two-thirds of the otherwise unencumbered FY 2011 surplus to transportation as required by § 2.2-1514 of the *Code of Virginia*. As with the FY 2010 surplus, the Governor has recommended that the amounts be deposited into the Virginia Transportation Infrastructure Bank (VTIB).
 - *Adjust Appropriation to Correspond with Agency's Adopted Budget for FY 2012.* Increases the VDOT appropriation by \$1,011.7 million NGF to reflect the Six Year Program and budget adopted by the Commonwealth Transportation Board in June, 2011. The increased amounts reflect the programming of proceeds from the sale of Commonwealth of Virginia Transportation Capital Project Revenue Bonds authorized by Chapter 830, 2011 Session of the General Assembly, as well as

updates to federal revenues and the assumed issuance of the 2012 Series of GARVEE bonds.

Administration

- **Compensation Board**
 - *Additional Funding for Per Diem Payments to Local and Regional Jails.* Proposes \$4.6 million GF in FY 2012 for an increase in projected per diem payments to local and regional jails.
 - *Savings to Reflect Delays in Openings in Jail Expansion Projects.* Reflects \$1.4 million GF in savings as a result of delays in jail expansion projects for the Loudon County jail, delayed from November 2009 until December 2011, and the Pittsylvania County jail, delayed from July 1, 2011 until January 2012.
- **Department of General Services**
 - *Conversion of State Fleet to Operate on Alternative Fuels.* Includes language authorizing the Department to enter into a PPEA agreement to convert vehicles in the state fleet to operate using alternative energy fuels. There are approximately 10,000 vehicles in state fleet currently.

Finance

- **Department of Accounts Transfer Payments**
 - *Move "Rainy Day Fund" Revenue Reserve from FY 2012 to the 2012-14 Biennium.* Removes \$114.0 million GF in FY 2012 which was reserved in anticipation of the Revenue Stabilization Fund deposits required during the 2012-14 biennium. HB/SB 30, as introduced, includes \$132.7 million in FY 2013 and \$166.4 million in FY 2014 for deposits in the Revenue Stabilization Fund.
 - *Transfer Payments to Localities.* Reduces the appropriation for the payments to localities by \$294,000 GF in FY 2012 to reflect current projections. The amendment decreases the appropriation for the distribution of rolling stock taxes by \$300,000 and increases the distribution to the Tennessee Valley Authority for payments in lieu of taxes by \$6,000.
 - *Line-of-Duty Act Work Group.* Includes language creating a work group to review the Line of Duty program. The work group is instructed to review the

process for determining eligibility for the program and the funding structure for the program authorized in the 2010 Appropriation Act and make recommendations by July 1, 2012.

- **Department of Taxation**
 - *New Phone System.* Recommends \$361,120 GF the second year to replace the current phone system which is approximately 20 years old.
- **Treasury Board**
 - *Adjust Debt Service Funding.* Reflects savings of \$11.0 million GF in the second year as the result of recent issuances of Virginia College Building Authority and Virginia Public Building Authority bonds at interest rates lower than previously assumed.

Central Appropriations

- **Unanticipated Expenditures**
 - *Federal Action Contingency Trust Fund.* Proposes \$30.0 million GF in FY 2012 to be held in reserve to address future federal budget reductions. This amount was reserved from the FY 2011 year-end surplus.
 - *Presidential Primary.* Recommends \$3.0 million GF to cover the costs associated with the 2012 presidential primary. Out of this amount, up to \$270,000 may be used to cover costs incurred by the State Board of Elections with the remaining \$2.73 million set aside to reimburse localities for costs incurred as a result of the primary.
 - *Reduce Technology Cost Supplement.* Proposes a reduction of \$8.3 million GF in FY 2012 in the amounts appropriated to supplement agency budgets for the costs of telecommunications and information technology services provided by the Virginia Information Technologies Agency (VITA) /Northrup Grumman.
- **Higher Education Reversion**
 - *Higher Education Reversion.* Proposes \$10.0 million GF in FY 2012 to eliminate the higher education reversion.

Capital Outlay

- **Department of Behavioral Health and Developmental Services**
 - Language amendment proposes that upon the completion of the repair and replacement of the Southeastern Virginia Training Center project, any surplus funds would be transferred to the community housing project. The community housing project (2008) was originally estimated to cost the state \$7.4 million to construct 12 ICF-MR homes and 6 MR homes. The ICF-MR homes were to be funded 20% from state bonds and 80% from Community Service Boards. The estimate was subsequently revised in 2009 to \$8.4 million with the same financing arrangement although fewer homes and fewer beds were able to be constructed at the higher amount. The bond funding was transferred from the Central Virginia Training Center for this purpose. The state project cost was further impacted after the decision by CSBs to fund slightly more than 20% of the project leaving the state with the remaining cost. This was a reversal of the original understanding.

- **Radford University**
 - *Renovate Washington Hall.* Recommends \$10.8 million NGF for renovation of Washington Hall at Radford University.

- **Department of Forestry**
 - *Construct Matthews State Forest Education and Conference Center.* Proposes \$2.0 million NGF for construction of the Matthews State Forest Education and Conference Center.