

## **Overview of Adopted Amendments to the 2012-14 Budget**

Adopted amendments to the 2012-14 budget include \$284.5 million in general fund resources above those assumed in Chapter 3 of the 2012 Acts of Assembly, Special Session I. These resources include the addition of \$120.1 million in balances; a \$120.7 million upward revision to the general fund revenue forecast, including tax policy actions; and additional transfers of \$43.7 million. When combined with the \$6.3 million unappropriated balance contained in Chapter 3, \$290.8 million GF in additional resources are available for appropriation.

Upward adjustments to the general fund revenue forecast total \$185.9 million, resulting from the ripple effect of collections above estimate in FY 2012, but are offset by a slight softening in the biennial economic growth rate assumed in Chapter 3. The adopted budget assumes “economic” growth of 3.6 percent and 4.2 percent respectively for FY 2013 and FY 2014, rather than the 3.7 percent and 4.5 percent rates approved during the 2012 Special Session I.

The adopted budget also includes several tax policy changes that would reduce the revenue forecast by a total of \$80.1 million GF. Changes include increasing the existing sales tax dedicated to transportation from 0.5 percent to 0.55 percent at a cost of \$49.0 million GF in FY 2014 and further reducing the number of retailers required to make an accelerated sales tax payment which will result in a loss of \$20.8 million GF in FY 2014.

New spending net of technical transfers total \$279.5 million GF. Additional spending of about \$892.1 million GF, including deposits to the Revenue Stabilization Fund, Medicaid, teacher and state employee compensation, and employee health insurance, is offset by almost \$612.6 million GF in savings, largely due to Medicaid pharmacy rebates. The budget, as adopted, leaves an unappropriated balance of \$11.6 million GF.

Several budget actions address “structural balance”, such as eliminating the \$45.0 million GF aid to localities reversion in FY 2014 and closing second-year “holes” in the budget, as well as the continued phase-out of the accelerated sales tax. The budget also fully funds the Constitutionally-required deposits to the Revenue Stabilization Fund, and sets aside \$95.0 million GF for anticipated Fund deposits required in the 2014-16 biennium.

## Amendments to the Budget for 2012-14

### Chapter 806

(GF \$ in millions)

	<u>FY 2013</u>	<u>FY 2014</u>	<u>2012-14</u>
<b>Chapter 3, 2012 SSI* - Revenues</b>	\$17,389.3	\$17,460.0	<b>\$34,849.3</b>
Adopted Adjustments	<u>252.3</u>	<u>32.2</u>	<u>284.5</u>
<b>Available Revenues</b>	<b>\$17,641.6</b>	<b>\$17,492.2</b>	<b>\$35,133.8</b>
<b>Chapter 3, 2012 SSI* - Appropriations</b>	\$17,320.4	\$17,502.3	<b>\$34,822.7</b>
Net New Operating Spending	(204.3)	483.8	279.5
Capital Outlay Spending	<u>(0.3)</u>	<u>0.0</u>	<u>(0.3)</u>
<b>Total Adopted Appropriations</b>	<b>\$17,116.0</b>	<b>\$17,986.1</b>	<b>\$35,102.1</b>
<b>Unappropriated Balance</b>	\$505.5	(\$493.9)	<b>\$11.6</b>
<i>*2012 Acts of Assembly, Special Session I</i>			

### Spending Increases

Major spending initiatives include:

- \$114.6 million GF for Medicaid utilization and inflation;
- \$78.3 million GF for a Constitutionally required deposit to the Revenue Stabilization Fund in FY 2014, and \$95.0 million GF set aside for an anticipated mandatory deposit in the 2014-16 biennium;
- \$70.2 million GF for the state share of a 2 percent salary increase for K-12 instructional and support positions recognized by the SOQ funding model, effective August 1, 2013;
- \$57.9 million GF to cover the general fund share of increased premiums for the state employee health insurance program;
- \$45.0 million GF to eliminate the requirement for localities to implement savings in FY 2014 for state aid to local programs; and

- \$29.4 million GF in additional funding for higher education to support the 2011 “Top Jobs” legislation, along with \$7.3 million GF to bring the second-year faculty salary increase to 3 percent.

**Budget Savings**

Major savings include:

- \$240.1 million GF in Medicaid reductions, offset by additional Health Care Fund resources, including pharmacy rebates and adjustments to tobacco taxes;
- \$44.5 million GF from lower debt service payments; and
- \$41.6 million GF in savings from lower caseloads in the Comprehensive Services Act (CSA) program.

<b>Major Spending and Savings in Chapter 806</b>	
(GF \$ in millions)	
	<u><b>FY 2012-14</b></u>
<b>Major Spending Adopted</b>	
Medicaid Utilization & Inflation	\$114.6
Advance Deposit for FY 2015 Rainy Day Fund Requirement	95.0
Complete Funding for Mandatory FY 2014 Rainy Day Fund Deposit	78.3
Incentive for 2% Salary Increase for Funded Teachers & Support Positions	70.2
Additional Funding for State Employee Health Insurance	57.9
Eliminate Local Aid Reversion Account	45.0
Higher Education Top Jobs Initiative	29.4
Classified, Other State-Supported Local Salary Increase	35.0
Children's Health Insurance Utilization & Inflation	20.9
FAMIS Utilization & Inflation	20.2
Open River North Correctional Center	18.0
Water Quality Improvement Fund	16.9
Inmate Medical Costs	15.5
Reforecast of Sales Tax to K-12 & School-Aged Population	9.7
Strategic Compensation Grant Initiatives for Schools	7.5
Higher Education Faculty Salary Increase	7.3

## Major Spending and Savings in Chapter 806

(GF \$ in millions)

	<u>FY 2012-14</u>
Consolidation of Bedford County & City School Divisions	\$6.2
Funding for Staff of Blind or Visually Impaired Students	4.9
All Other Spending	239.6
<b>Total Spending:</b>	<b>\$892.1</b>
 <b>Major Savings Adopted</b>	
Adjust Funding for Health Care Fund	(\$243.1)
Update Lottery Accounts for Participation/Prior Year Balance	(58.4)
Capture Treasury Board Debt Service Savings	(44.5)
Reduce CSA Based on Caseload & Spending Forecast Changes	(41.6)
Maintain Disproportionate Share Payments at FY 2013 Level	(21.7)
Update SOQ, Incentive & Categorical Costs - Technical	(21.0)
Increase Use of Literary Fund for Teacher Retirement	(15.5)
DOC New Medical Contract & Medicaid Savings	(12.8)
Supplant GF with TANF Funds at DSS	(10.0)
Reduce CSA Waste, Fraud & Abuse	(9.9)
Department of Juvenile Justice Facility Closure/Repurposing	(7.0)
Reduce Central Appropriations Funding for Phone Systems/IT Costs	(5.4)
All Other Savings	(121.7)
<b>Total Savings:</b>	<b>(\$612.6)</b>
 <b>Net Spending Adjustments</b>	 <b>\$279.5</b>

A summary of significant spending increases and savings actions adopted in each major area follows:

**Judicial Department.** Adopted amendments for the FY 2012-14 budget allocate a portion of the projected savings from frozen judgeships to fill 31 judicial vacancies, including 12 circuit court judgeships; 14 general district court judgeships; and five juvenile and domestic relations district court judgeships. In addition, the amendments create a new judgeship for the 15<sup>th</sup> Judicial Circuit. The budget also provides \$1.3 million GF the first year and \$1.7 million GF the second year for increased costs in the Criminal Fund, and \$700,000 GF the second year to offset

anticipated revenue reductions for local legal aid programs funded through the Legal Services Corporation of Virginia. A 25 percent, or \$117,500 GF, reduction is applied to the annual grant to the Virginia Capital Representation Resource Center, and language directs the Indigent Defense Commission to review the structure and staffing of the four regional capital defense units, reflecting the declining workload of capital murder cases involving the death penalty.

*Executive Offices.* Adopted amendments for the FY 2012-14 budget include \$2.1 million NGF the first year, \$2.1 million NGF the second year and 14.0 positions to expand the Medicaid Fraud Control Unit in the Office of the Attorney General. An additional \$250,000 GF and 3.0 positions are also added for the Attorney General for enhanced tobacco tax enforcement. The amendments include transfers from other agencies and enhancements for the new Office of the State Inspector General (OSIG), created by the 2011 General Assembly. Transfers of \$2.2 million GF and \$1.9 million NGF and 37.0 positions are included for the OSIG from the Departments of Accounts; Behavioral Health and Developmental Services; Corrections; Juvenile Justice; and Transportation. The budget also includes funds for 3.0 new positions and support costs for this new office.

*Administration.* Adopted amendments include \$6.3 million GF the first year to the Compensation Board to fund the projection for jail per diem payments, and \$2.1 million GF the second year to fund a salary increase for Assistant Commonwealth's Attorneys. A nongeneral fund increase of \$65.0 million per year for the Local Choice health insurance program reflects current participation in the program. Language included in Part 4 of the budget bill caps the number of hours that any wage employee in the executive, legislative, or judicial branches of government can work at 29 hours per week over a 12 month period.

*Agriculture and Forestry.* The adopted budget includes a net increase of \$432,964 GF for the biennium. Modest increases in the Department of Agriculture and Consumer Services include 1.0 position to oversee the Governor's Agriculture and Forestry Industries Development Fund, \$250,000 GF for the Weights and Measures inspection program, and small increases for Food Safety and coyote control. The largest decrease is a \$200,000 GF reduction in the Purchase of Development Rights Program. Amendments for the Department of Forestry include a \$250,000 GF increase for reforestation of timberlands and a \$9.8 million NGF deposit to the newly created Virginia State Forest Mitigation and Acquisition Fund.

*Commerce and Trade.* General fund amendments for the Office of Commerce and Trade result in a net increase of \$5.2 million GF for the biennium. The largest increases include an additional \$2.0 million GF for housing services and \$1.0 million GF for offshore wind development. The adopted budget recognizes savings of \$1.5 million GF for the Fort Monroe Authority in the first year, offset by an increase of \$5.1 million GF to provide operating support in the second year. Also included is savings of \$2.0 million GF from technical amendments to the Virginia Investment Partnership Grants due to several projects not meeting performance

goals. An amendment in Part 3 of the budget bill transfers a total of \$7.5 million in excess balances from the Governor's Opportunity Fund to the general fund.

**Public Education.** Adopted amendments for FY 2013 for Direct Aid to Public Education reflect a net decrease of \$68.4 million GF and an increase of \$88.0 million NGF, reflecting updates for slower enrollment growth and program participation; the increased Sales Tax forecast; a "truing up" of expected federal funds; and additional Lottery Proceeds and Literary Fund revenue used to cover other general fund costs.

For FY 2014, the adopted amendments reflect a net increase of \$74.1 million GF and an increase of \$42.0 million NGF due to the "truing up" of expected federal funds. The general fund increases include \$70.2 million for the state's share of a 2 percent salary increase for funded SOQ instructional and support positions; \$7.5 million for a Strategic Compensation Grants Initiative; \$6.2 million for the consolidation of the Bedford County and City school divisions; \$4.9 million to fund staffing for the blind or visually impaired; \$1.4 million for a targeted reading specialists initiative; and \$1.3 million for debt service for the first \$6.0 million issuance for school security upgrades.

In addition to the updates for lower enrollment growth and program participation, general fund decreases in FY 2014 include: \$2.8 million by reducing the Cost of Competing Adjustment for support positions, and \$425,331 due to an adjustment in the Early Intervention Reading Initiative funding methodology.

**Higher Education.** The adopted budget provides about \$44.9 million GF of new funding over the biennium (including funding contained under Central Appropriations). The majority of the new funding, \$29.4 million GF in FY 2014, supports the goals of the Virginia Higher Education Opportunity Act of 2011. The new funding is allocated in five areas: base adequacy/base operations (\$11.0 million); enrollment/new seats (\$3.4 million); institution-specific initiatives (\$1.9 million); financial aid (\$8.6 million); and research (\$4.5 million). The other significant funding item is an additional 1 percent faculty salary increase (\$7.3 million). This addition brings the total faculty salary increase to 3 percent in the second year.

**Finance.** Adopted amendments include \$128.3 million GF in additional appropriation for deposits into the Revenue Stabilization Fund, including an additional \$78.3 million GF for the FY 2014 required deposit and \$95.0 million GF to make an advance payment for the 2014-16 biennium. The additional GF expenditures are partially offset by a \$44.5 million reduction in assumed debt service payments for the Treasury Board, primarily due to refinancings. Several technical amendments are included with the Department of Taxation to implement the new statewide and regional tax increases for transportation that were approved in Chapter 766 of the 2013 Acts of Assembly (HB 2313), as adopted.

**Health and Human Resources.** Approved spending totals \$241.9 million GF, offset by \$366.3 million GF in budget savings for a net decrease of \$124.4 million GF for the biennium. Over 65 percent, or \$155.7 million, of new general fund spending is provided for mandatory spending on Medicaid and children's health insurance programs. Additional mandatory funding for Medicaid is primarily due to increases in spending on personal care provided under home- and community-based waiver programs and community mental health services for adults, additional costs associated with the rebasing of hospital payment rates, and delayed payments from FY 2012 for teaching hospitals, state mental health hospitals and state training centers. These expenses were compounded by reductions in anticipated savings from the expansion of managed care for behavioral health services due to legal challenges.

New spending in Medicaid provides 200 additional Intellectual Disability waiver slots, 50 additional Developmental Disability waiver slots and a congregate care rate increase for waiver recipients with complex medical or behavioral needs. The adopted budget also restores funds to maintain Medicaid eligibility for long-term care services, adds funds for a Medicaid call center and health innovation activities, and provides rate increases for private duty nursing and adult day health care services.

New spending in HHR is more than offset by general fund reductions of \$366.3 million. Almost 80 percent of the reductions can be attributed to forecast-related changes for mandated HHR programs. For example, pharmacy rebates from managed care organizations are estimated to reduce general fund costs of Medicaid by more than \$200.0 million. In addition, the number of children, youth and families served through the Comprehensive Services Act (CSA) program continues to decline, resulting in projected CSA savings of \$41.6 million GF. Finally, spending on foster care and adoption subsidies as well as social services programs is expected to decline during the biennium.

The adopted budget includes language authorizing the Department of Medical Assistance Services (DMAS) to seek federal approval to reform current benefits and services for Medicaid recipients. The budget also includes language creating a Medicaid Innovation and Reform Commission (MIRC). If the MIRC determines that specific reforms have been made to the Medicaid program, DMAS is authorized to expand Medicaid eligibility up to 133 percent of poverty. A sum sufficient appropriation is provided if the program is expanded.

**Natural Resources.** The largest general fund increase approved in Natural Resources is \$16.9 million from the statutory Water Quality Improvement Fund (WQIF) deposit, all of which is provided for nonpoint source projects. The approved budget also authorizes \$221.0 million in Virginia Public Building Authority bonds for water quality projects, including \$101.0 million to cover the state's share of grant agreements through FY 2016 for the upgrade of wastewater treatment plants; \$75.0 million for the Combined Sewer Overflow projects in the Cities of Lynchburg and Richmond; \$35.0 million for matching grants to local governments for storm water management projects; \$5.0 million for the Appomattox River Water Authority to expand

drinking water capacity; and, \$5.0 million for Hopewell Regional Wastewater Treatment Authority for nutrient reduction technology.

***Public Safety.*** Adopted amendments to the 2012-14 budget include \$18.0 million GF for the Department of Corrections to open the new River North Correctional Center in Grayson County in October 2013. An additional \$15.5 million GF is provided to cover projected inmate medical costs; however, this amount is offset by savings of \$10.0 million GF from the negotiation of a new medical services contract with a new private provider, and an additional savings of \$2.7 million GF based on enrolling inmates in Medicaid to the extent permitted under current eligibility standards. In the Department of Juvenile Justice, the adopted budget includes a savings of \$7.1 million GF through a series of actions to close the Reception and Diagnostic Center at Bon Air in Chesterfield County and Hanover Juvenile Correctional Center, and a savings of \$1.0 million GF by eliminating 25.0 teaching positions, reflecting the declining population of the state juvenile correctional centers. Based on recommendations of the Governor's Task Force on School and Campus Safety, the budget restores \$1.3 million GF for school resource officers through the Department of Criminal Justice Services. For the Department of State Police, the budget adds \$1.2 million GF to operate the new driver training facility at Fort Pickett.

***Veterans Affairs and Homeland Security.*** Adopted amendments to the 2012-14 budget include \$6.2 million GF from the Federal Action Contingency Trust (FACT) Fund and \$1.3 million NGF to continue the state share of addressing encroachment at the U.S. Navy Master Jet Base at Oceana in Virginia Beach. The source of the nongeneral funds is the sale of properties previously acquired under the program. The budget adds \$450,000 GF for the Virginia Values Veterans (V3) program in the Department of Veterans Services to encourage private businesses to hire returning and disabled military veterans.

***Technology.*** The adopted budget includes \$2.5 million GF for a Cybersecurity Accelerator program within the Innovation and Entrepreneurship Investment Authority, and the creation of an Information Security Officer position to serve the IT security needs of small agencies within the Virginia Information Technologies Agency (VITA). Other amendments for Technology involve a nongeneral fund transfer of \$21.2 million for E-911 payments to localities from VITA to the Department of Accounts, the recognition of increased revenues from the surcharges on state IT contracts, and language increasing the sum sufficient amounts for VITA and Northrop Grumman services. These sum sufficient amounts, representing the amounts state agencies must pay for IT services, will increase by \$26.8 million in FY 2013 and \$24.6 million in FY 2014. Finally, VITA is directed to provide the General Assembly with an analysis of the transition costs and timelines related to the comprehensive infrastructure agreement with Northrop Grumman and identify options that will be available to the Commonwealth at the expiry of the contract in FY 2020.



**Transportation.** The adopted amendments to the 2012-14 budget for transportation include two major actions pursuant to Chapter 766 of the 2013 Acts of Assembly (HB 2313), as adopted: 1) the dedication of an additional 0.05 percent of the existing general sales and use tax to transportation, and 2) language authorizing the expenditure of revenues dedicated in Chapter 766 to the Intercity Passenger Rail Operating and Capital Fund. The budget amendments reflect the appropriation of the additional 0.05 percent in FY 2014, estimated at \$49.0 million NGF. Additionally, the appropriation for the Virginia Commercial Spaceflight Authority is increased to \$11.8 million NGF (representing an increase of \$1.5 million in operating expenses) and \$800,000 for shoreline protection at the Wallops Flight Facility.

**Central Appropriations/Employee Compensation.** Adopted amendments include \$45.0 million GF in the second year to eliminate the local aid reversion in FY 2014, and \$5.7 million GF in the second year to eliminate the portion of the portion of the vacancy and turnover savings assumed for the institutions of higher education.

The budget also includes \$57.9 million GF to fund the employer share of the FY 2014 premium increases for the state employee health insurance program and \$24.7 million to address employee salary compression by providing a salary adjustment of \$65 per year of service for full-time employees and \$70 per year of service for sworn employees of the Department of State Police effective August 16, 2013. Funding totaling \$8.3 million GF is also included to provide a 1 percent salary adjustment for Constitutional officers and state-supported local employees. These increases are in addition to the 2 percent adjustment that will be effective in August 2013. Funding for all actions related to employee compensation across all categories of state and state supported local positions – including K-12 and higher education – totals \$199.5 million GF in FY 2014.

**Capital Outlay.** The adopted amendments to the capital outlay program for 2012-14 total about \$1.3 billion (all funds). Included in this amount is \$1.1 billion in new general fund supported bonds to be issued by the Virginia Public Building Authority (VPBA) and the Virginia College Building Authority (VCBA). Nongeneral fund capital amendments total \$152.1 million. Out of this amount, \$97.9 million is funded with nongeneral fund cash, \$9.7 million is funded with 9(c) NGF revenue bonds, and \$44.5 million with 9(d) revenue bonds.

The amendments provide \$933.5 million for a comprehensive list of projects, to include advancing to construction all of the projects approved Chapter 3 of the 2012 Acts of Assembly, Special Session I for detailed planning and several more high priority projects added by the General Assembly. This comprehensive project pool is funded with \$877.5 million in VCBA/VPBA bonds and \$56.0 million in higher education operating funding.

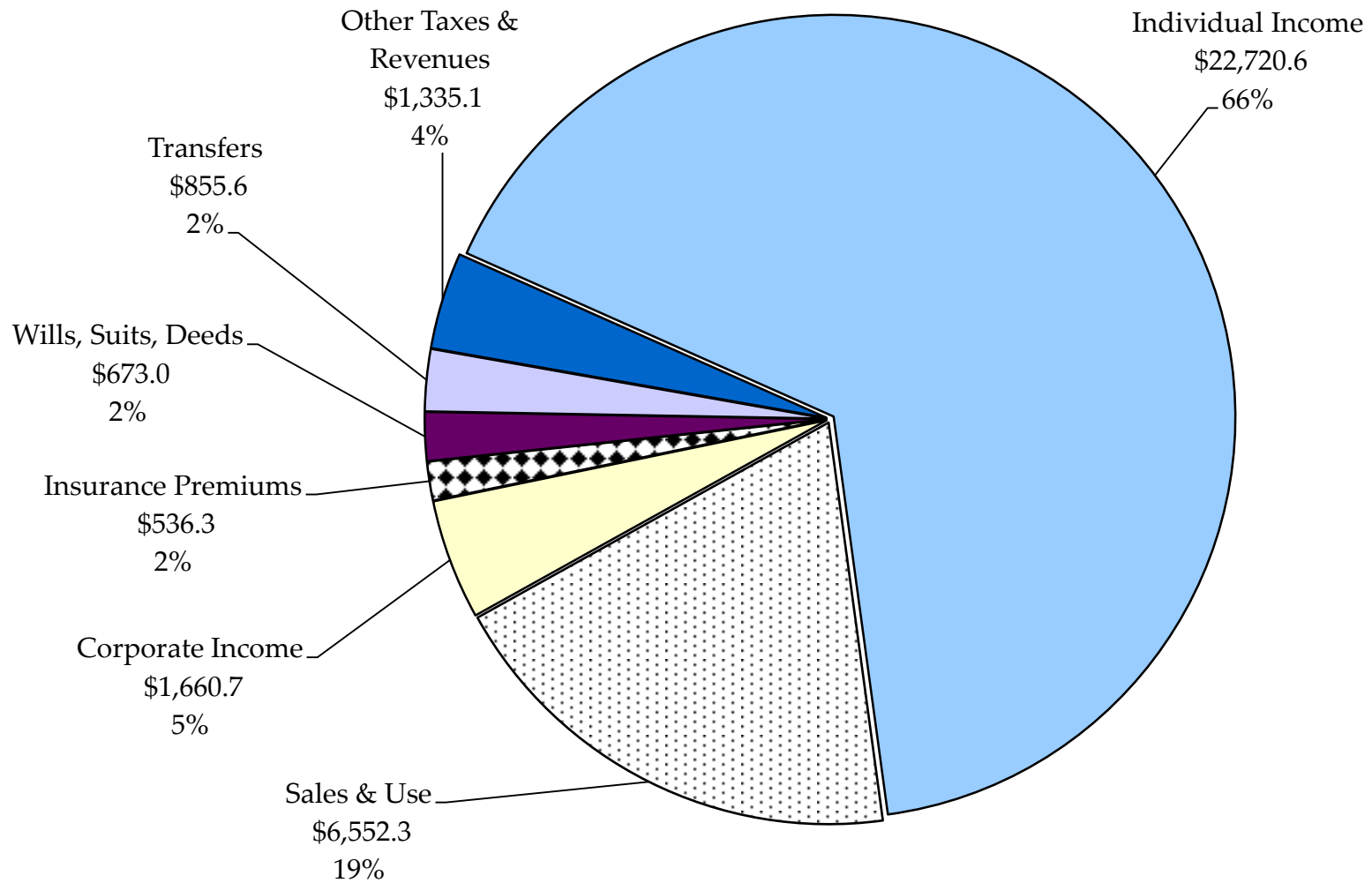
The amendments provide \$13.0 million NGF from the Capital Planning Fund and \$16.0 million from higher education NGF revenues to advance all of the projects approved for preplanning in Chapter 3 on to the detailed planning phase and fund ten more projects for

preplanning. Additional VCBA/VPBA bonds totaling \$16.5 million are provided to supplement four projects currently under construction, and \$5.9 million is provided for equipment for four projects nearing completion.

# FY 2012-14 General Fund Revenues = \$34.3 Billion

Chapter 806 (HB 1500, as Adopted)

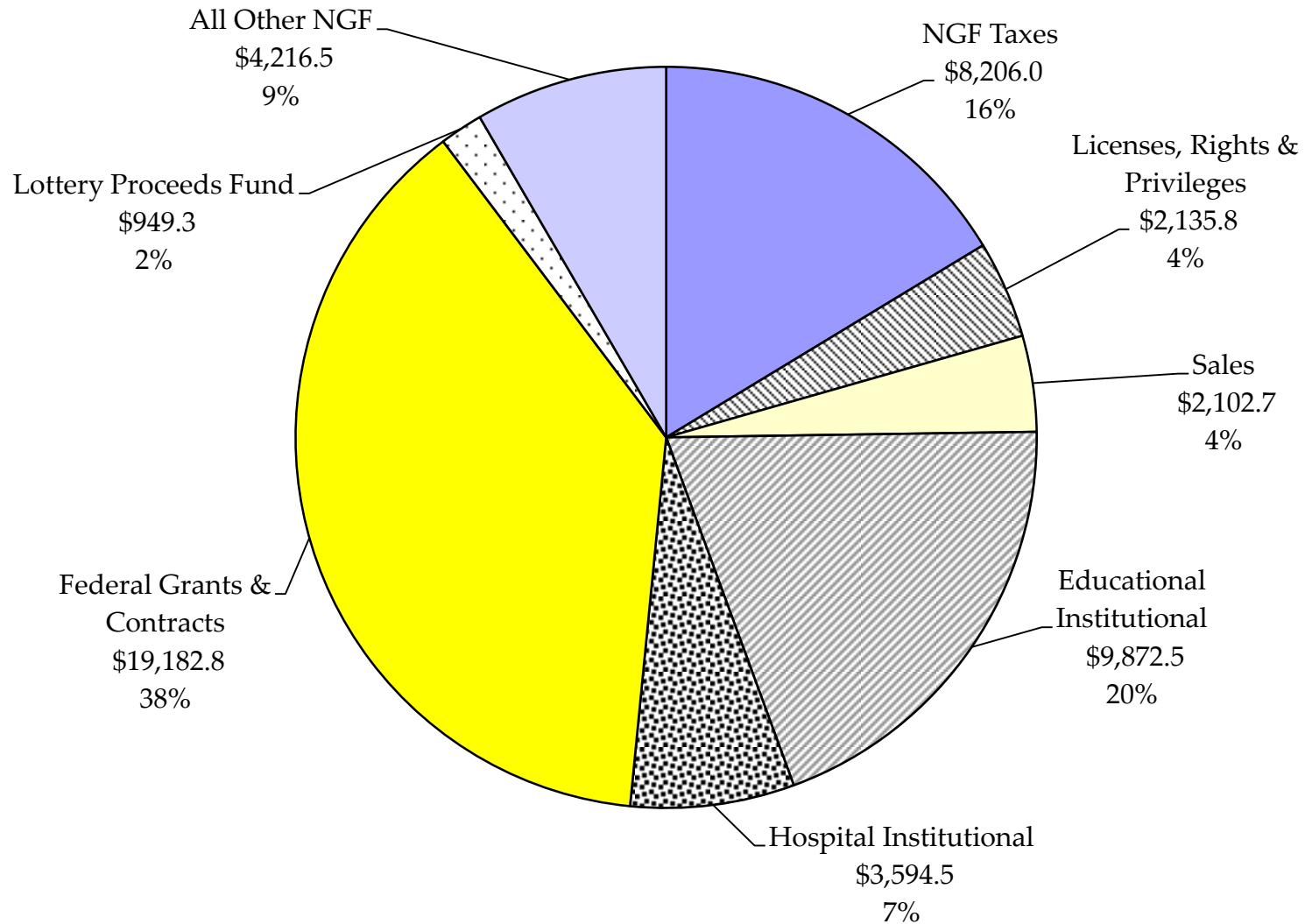
(\$ in millions)



# FY 2012-14 Nongeneral Fund Revenues = \$50.3 Billion

Chapter 806 (HB 1500, as Adopted)

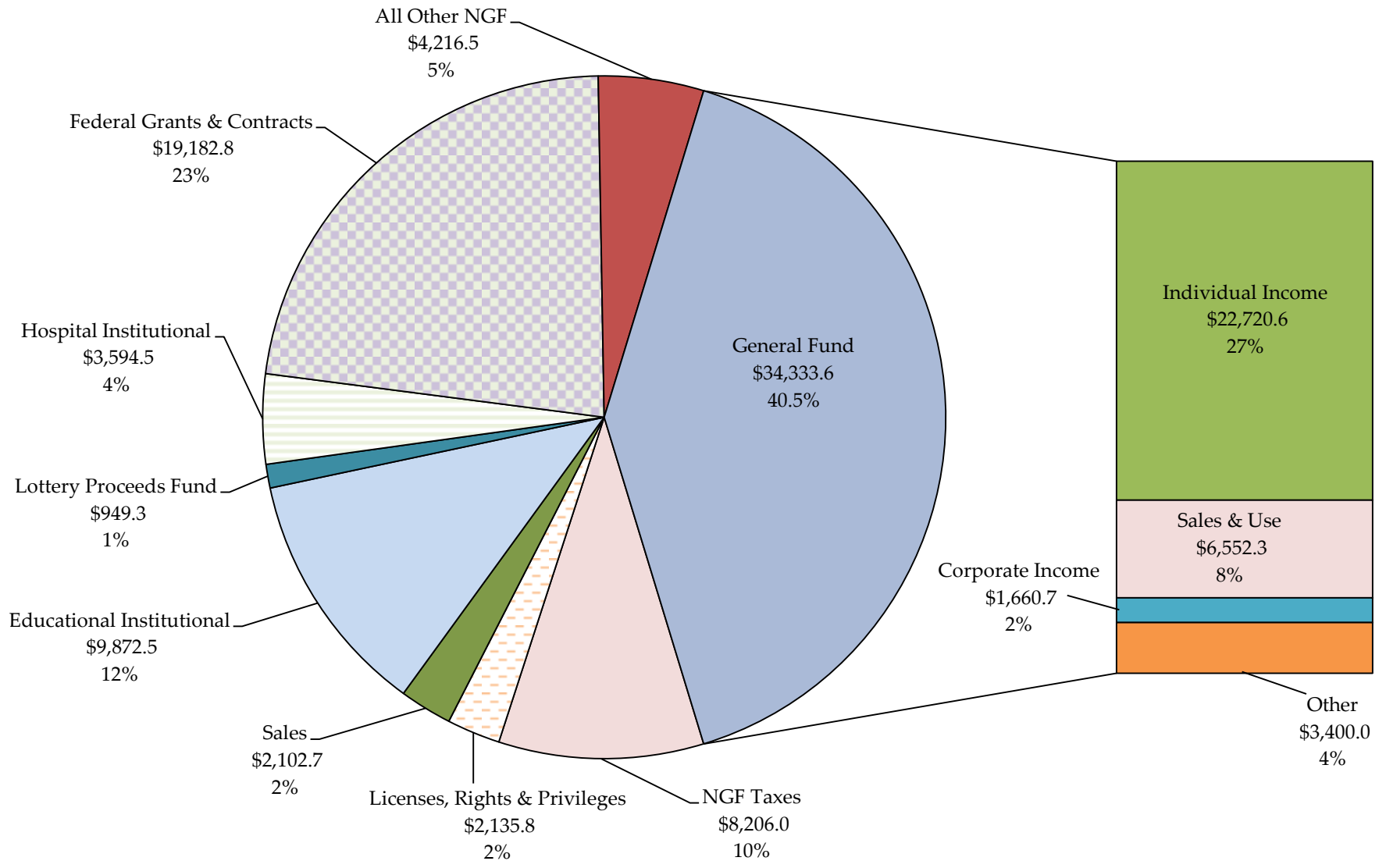
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# FY 2012-14 Total Revenues = \$84.6 Billion

Chapter 806 (HB 1500, as Adopted)

(\$ in millions)



# FY 2012-14 General Fund Operating Budget = \$35.1 Billion

Chapter 806 (HB 1500, as Adopted)

(\$ in millions)

