

Overview of Adopted Amendments to the 2014-16 Budget

Adopted amendments to the 2014-16 budget, Chapter 665 of the 2015 Acts of Assembly, include \$624.1 million in general fund resources above those assumed in Chapter 3 of the 2014 Acts of Assembly, Special Session I. These resources include a net balance reduction of \$157.0 million; an upward revision to the general fund revenue forecast of \$714.9 million; and transfer additions of \$66.3 million. When combined with the \$2.9 million unappropriated balance contained in Chapter 3, these changes total \$627.1 million in additional resources.

The economic growth rate for revenues is projected to be 4.4 percent in FY 2015, accounting for actual collections through January of 2015. This reflects improved job growth, along with strong corporate profits and holiday sales. For FY 2016, the projected economic growth rate of 3.0 percent is slightly above the 2.8 percent rate assumed in Chapter 3. A series of technical adjustments increases revenues by \$45.3 million, including \$21.6 million from strategies identified in agency reduction plans. A series of policy actions add \$80.4 million to the revenue estimate over the two years.

Net new spending totals \$622.2 million GF, including funding for employee compensation, one-time funding for capital outlay projects, and a set-aside for a required Rainy Day Fund deposit. The budget assumes an unappropriated balance of \$5.0 million GF.

Amendments to the 2014-16 Budget, as Adopted			
(GF, \$ in millions)			
	<u>FY 2015</u>	<u>FY 2016</u>	<u>2014-16</u>
Chapter 3, 2014 SSI - Resources	\$18,277.1	\$18,108.2	\$36,385.3
Adopted Adjustments	<u>210.3</u>	<u>413.8</u>	<u>624.1</u>
Chapter 665 Available Resources	\$18,487.4	\$18,522.0	\$37,009.4
Chapter 3, 2014 SSI - Appropriations	\$18,261.6	\$18,120.6	\$36,382.2
Net New Operating Spending	(21.5)	502.2	480.6
Capital Outlay Spending	<u>0.2</u>	<u>141.4</u>	<u>141.6</u>
Chapter 665 Total Appropriations	\$18,240.3	\$18,764.2	\$37,004.4
Chapter 665 Unappropriated Balance	\$247.1	(\$242.1)	\$5.0

Adopted Spending Increases

Major spending items include:

- \$141.4 million GF in FY 2016 for capital outlay projects and maintenance reserve;
- \$129.5 million GF in FY 2015 reserved for deposit to the Revenue Stabilization Fund, based on anticipated FY 2015 revenue collections;
- \$119.3 million GF for the biennium to fund a new behavioral health program in Medicaid for individuals with mental illness and other coverage changes;
- \$77.5 million GF in FY 2016 for compensation adjustments for state and state-supported local employees;
- \$52.9 million in FY 2016 for the state share of a teacher salary increase;
- \$48.9 million in FY 2016 for higher education for funding support, pay for enrollment growth, financial aid, research and provide a faculty salary increase;
- \$35.4 million GF in FY 2016 to support increases in offender medical costs in the Department of Corrections, address Hepatitis C treatment costs, and provide additional security staffing;
- \$32.3 million GF in FY 2016 to accelerate the state’s commitment to funding the full board-approved VRS rate;
- \$29.8 million GF in FY 2016 to eliminate the Aid to Localities reversion account;
- \$21.5 million GF in FY 2016 in the Office of Natural Resources for water quality and land conservation efforts; and
- \$20.7 million GF for the Commonwealth’s Development Opportunity Fund to support employer recruitment and job growth.

Budget Reduction Strategies

Chapter 3 contained a reversion clearing account (Item 471.40) that included both detailed reduction actions as well as two broader savings categories for which the Governor identified specific actions in his amendments. The unspecified actions total \$51.7 million in assumed FY 2015 year-end operating balances and \$272.0 million in FY 2016 budget reductions or other

savings strategies. The savings items below address the required reversion amounts, and also help fund new spending described above:

- \$361.1 million GF reduction in the Medicaid and FAMIS forecasts;
- \$69.2 million GF by offsetting teacher retirement costs and \$13.3 million GF in lower teacher retirement contributions related to an expected \$315.0 million unclaimed property transfer to the Literary Fund;
- \$26.3 million GF from state employee health insurance utilization and premium policy changes; and
- \$24.2 million GF in additional debt service savings.

Major Spending and Savings in Chapter 665

(GF \$ in millions)

	<u>FY 2014-16</u>
Major Spending	
GF for Capital Outlay Projects and Maintenance Reserve	\$141.4
Set-aside for Future Rainy Day Fund Deposit	129.5
DMAS: New Behavioral Health Program & Other Coverage Changes	119.3
Salary Increases for State and State-Supported Local Employees	77.5
K-12: State Share of Teacher and School Staff Salary Increase	52.9
Higher Ed: Funding Support, Financial Aid, Research and Faculty Salary Increases	48.9
DOC: Inmate Medical Costs, Staffing, Hepatitis C Medications	35.4
VRS: Fund Board-Approved Rate for State Employees at 90 Percent	32.3
Eliminate Aid to Localities Reversion	29.8
Commonwealth's Development Opportunity Fund	20.7
Compensation Board: Jail Per Diems	13.8
Criminal Fund: Indigent Defense	13.4
DBHDS: Lost Revenue from Re-Designation of Geriatric Hospitals	12.9
VITA: IT and Telecomm Charges to Agencies	10.8
DMAS: Increase Intellectual and Developmental Svcs. Waiver Rates	8.2
DBHDS: State Intellectual Disabilities Facilities Delayed Discharges	5.7
K-12: Grants for Extended School Year Initiatives	4.8
DMAS: Involuntary Mental Commitment Medical Services	4.6
DSS: Offset Decline in Child Support Revenue	4.2
Jefferson Labs: Compete for Electron Ion Collider	4.0

Major Spending and Savings in Chapter 665
(GF \$ in millions)

	<u>FY 2014-16</u>
DBHDS: Offset Lost Medicare Payments for Health Records	3.8
DMAS: Personal and Respite Care Rate Increase	3.5
DMAS: CoverVirginia Medicaid Central Processing Unit	3.3
DBHDS: Add PACT Programs	3.0
DBHDS: Additional Local Inpatient Bed Purchases	2.2
DBHDS: Permanent Supportive Housing	2.1
DSS: Additional Local Eligibility Workers	2.1
 Major Budget Reduction Strategies	
DMAS: Medicaid & FAMIS Forecasts	\$ 361.1
Public Ed: Lottery and Literary Fund NGF Revenue	98.3
DMAS: Offset GF Support of Medicaid w/Cash Balance in HCF	34.8
Public Ed: Lower than Projected Enrollment Growth	30.8
Employee Health Insurance Savings/Utilization and Higher Co-Pays	26.3
Treasury Board: Debt Service Savings	24.2
Public Ed: Recalculation of Employer Retirement Contribution Rate	13.3
State Agency Reductions (beyond \$192.4 million in Ch. 3, Item 471.10)	17.4
Discretionary Carry-Forwards Reverted	15.4
Misc. Reversions (beyond \$539.8 million in Ch. 3, Item 471.40)	55.2
 <i>See Resources Section for Adjustments to GF Balances and Proposed Tax Policy Changes.</i>	

A summary of significant amendments to the 2014-16 budget, by major area, follows:

Judicial Department. Adopted amendments transfer \$15.8 million GF from Central Appropriations and add an additional \$0.9 million the second year to fill vacant judgeships, in order to provide a total of 405 funded judgeships out of a total 429 authorized. Other amendments include \$18.8 million for the Criminal Fund and \$750,000 for legal aid.

Administration. Adopted amendments result in a net increase of \$15.1 million GF for the biennium, compared to Chapter 3, most of which is for sheriffs and jails. Savings actions include several minor fee increases in the Department of General Services (DGS) to offset reductions taken in Item 471.10 as well as actions to revert more than \$6.0 million in NGF balances from DGS Internal Service Funds and more than \$10.0 million in balances in the Health Insurance Fund that are included in Part 3 of the Appropriation Act. Additionally, a working capital advance of up to \$20.0 million is provided for DHRM in the administration of worker's compensation claims.

Adopted amendments for the Compensation Board include \$1.2 million GF the second year to raise the entry level salaries for entry-level Grade 7 Deputy Sheriffs and Grade 7 Regional Jail Officers by 4.63 percent (in addition to the 2 percent across-the-board salary increase). The amendments also add \$13.8 million GF the first year only to cover the projected cost of per diem payments for local and regional jails. Language adopted by the 2014 General Assembly regarding the collection of delinquent accounts has been amended to permit the six local Treasurers currently collecting delinquent accounts on a contingency basis to continue to do so until June 30, 2018, and to split any proceeds in excess of actual costs on a 50-50 basis with the Commonwealth, consistent with the current policy for Commonwealth's Attorneys.

Agriculture and Forestry. The adopted budget includes a net increase of \$698,000 GF in the second year, largely from additional resources dedicated to the purchase of development rights program. In addition, GF savings totaling \$3.1 million are included in Item 471.10 and Part III primarily resulting from program balances, field office closures and capturing turnover and vacancy savings.

Commerce and Trade. Adopted GF appropriations reflect net increases of \$15.4 million the first year (8.5 percent) and \$17.9 million the second year (9.1 percent) after accounting for all savings. These adjustments include \$20.7 million in funding for the Commonwealth's Development Opportunity Fund, in addition to the \$20.0 million appropriated in Chapter 3. Other increases include capitalization of \$4.0 million GF in each year for the Housing Trust Fund managed by the Department of Housing and Community Development, as well as \$1.0 million for a rapid rehousing program with a primary focus on homeless veterans. In addition, \$500,000 in the second year is provided for a pilot tourism grant fund.

These increases are offset in part by reductions totaling \$1.1 million the second year within the agencies, as well as reversions in Item 471.10 totaling \$3.4 million the first year and \$3.7 million the second year, or about 1.9 percent of the secretariat's budget. Major savings actions in Central Accounts include reductions of \$750,000 the first year from reduced water and wastewater grants in Southwest Virginia as well as multiple minor reductions across the agencies of the secretariat.

Public Education. The adopted amendments include \$52.9 million for the state's share of a 1.5 percent teacher and school support staff salary increase, allowing localities the flexibility to select an effective date no later than January 1, 2016. Other amendments for Direct Aid to Public Education primarily reflect additional NGF revenue from the Literary Fund and Lottery Proceeds and routine technical updates, including slower than projected enrollment growth, sales tax, and other participation data.

In addition to \$15.0 million from additional Literary Fund resources from the sale of old unclaimed property stocks anticipated in Chapter 3, the amendments reflect another \$315.0 million that can be made available for use in the Literary Fund based on Department of Treasury estimates. The associated amendments include a one-time payment of \$192.8 million in the

second year to the Virginia Retirement System to help address the teachers' retirement unfunded liability. As a result of this action, the amendments capture \$13.3 million GF savings by applying a lower teacher retirement employer contribution rate of 14.06 percent, down from 14.50 percent. Other uses of the funds include \$52.9 million for VPSA school construction loans that will be repaid to the Fund over the 20-year terms of the issued loans and \$69.2 million to offset general fund revenues for SOQ retirement costs.

Adopted amendments related to the Virginia Preschool Initiative for at-risk four-year-olds include: 1) appropriating \$17.5 million NGF for year one of the federal expansion grant, 2) establishing a joint legislative subcommittee on accountability, flexibility, innovation, partnerships, and a competency-based professional development framework, 3) revising student eligibility, 4) reducing funding by \$2.9 million due to updated lower kindergarten enrollment levels, and 5) authorizing the use of any unused but appropriated funds for the Virginia Preschool Initiative for at-risk four-year-olds to school divisions with priority to expanding partnerships with non-profit or for-profit providers.

Adopted amendments also include the following increases: \$4.8 million GF for Targeted Extended School Year grants, \$537,297 GF for reimbursement of school breakfasts served, \$500,000 GF for establishing urban teacher residency programs in Petersburg and Norfolk, \$250,000 for five competitive grants for high school innovation, \$250,000 GF for the Virginia Early Childhood Foundation, and \$250,000 GF additional for the Virtual Virginia program run by the Department of Education.

In the Department of Education, adopted amendments add \$1.7 million GF for professional development and other technical support for under-performing schools, \$1.0 million GF to begin a statewide kindergarten readiness assessment, \$932,000 GF to transition the grades seven and eight Standards of Learning (SOL) mathematics tests to a computer adaptive testing format and for certain "expedited retakes" of SOL tests in grades three through eight. Central Account reductions include \$500,000 GF by eliminating contract funding for the development of digital content and online resources for school divisions, and \$220,191 GF by eliminating contract funding for the new Virginia Center for Excellence in Teaching at George Mason University.

Higher Education. Adopted amendments provide an increase of \$51.3 million GF in the second year for higher education. Of the new funding, \$48.9 million is provided for allocations to the higher education institutions and related agencies for the following: operations/enrollment growth/budget reduction relief/institution-specific initiatives (\$20.5 million), financial aid (\$8.9 million), research (\$5.1 million), and a 2 percent faculty salary increase (\$14.4 million). Within the financial aid allocation is over \$1.0 million to be used by the Virginia Community College System (VCCS) for need-based aid for individuals seeking selected industry-based certifications. Other funding related to aid is included for the Two-Year Transfer Grant of \$650,000 GF over the biennium for enrollment growth and another \$600,000 GF for an additional \$1,000 for students that transfer to select institutions. The Jefferson Lab will also receive funding of almost \$4.0

million GF in the second year to help attract a federal electron ion collider project (\$3.7 million is funded under economic development). Finally, an additional \$10.0 million allocation from the Higher Education Equipment Trust Fund (HEETF) is provided in the second year.

Language was adopted under the General Assembly to create a new Joint Subcommittee on the on the Future Competitiveness of Higher Education. The Joint Subcommittee will examine a number of issues related to this topic over the course of two years. Additionally, language was included in the budget to implement selected recommendations from the Joint Legislative Audit and Review Commission's series of reports on higher education. Legislation related to athletic fees was also adopted as a result of those reports and will prohibit the combined sum of school funds and student fees used to support intercollegiate athletics programs from exceeding a certain percentage of athletic revenue starting on July 1, 2016.

The higher education general fund reductions of \$45.0 million each year required in Chapter 3 have been transferred from Central Appropriations to the individual institutions' budgets. Other higher education-related agencies, such as the regional higher education centers, were previously subject to reductions of 5 percent the first year and 7 percent the second year. The funding from the additional 2 percent reductions in the second year has been restored to the higher education centers. The Virginia Tech and Virginia State Extension divisions and the Virginia Institute of Marine Science were exempt from reductions in Chapter 3 and in the adopted budget.

Finance. Adopted amendments include the one-time set-aside of \$129.5 million GF to a reserve account for the anticipated deposit to the Revenue Stabilization Fund in the 2016-18 biennium. However, reductions in second year direct appropriations and savings actions taken in Item 471.10 result in an offsetting reduction of \$46.0 million GF for the biennium, compared to Chapter 3. Minimal general fund expenditures included in the second year are required to implement the U.S. Treasury Vendor Offset Program, resulting in an additional \$1.0 million in assumed GF revenues. Savings from debt service requirements at the Treasury Board total \$24.2 million GF. Within the Department of Accounts, language is included authorizing an increase in the treasury loan for the development and implementation of the Cardinal financial management system of \$15.0 million, from \$60.0 million to \$75.0 million. The increase is intended to cover the initial costs for the development of a potential replacement payroll system.

Health and Human Resources. Adopted amendments include a net decrease of \$204.5 million GF and \$318.9 million NGF for the 2014-16 biennial budget. Additional spending of \$224.6 million GF is offset by \$429.1 million GF in declining expenditure forecasts and budget reductions.

Declining expenditure forecasts for the Medicaid and children's health insurance programs and a cash balance in the Health Care Fund account for \$361.1 million GF or 97 percent of the budget reductions over the biennium. Medicaid spending alone is projected to decline by

\$335.4 million over the biennium, compared to Chapter 3. Other budget savings include reduced Medicaid payments, saving \$5.0 million GF for the state-operated Piedmont Geriatric and Catawba Hospitals due to their Medicaid provider classifications being changed to nursing homes.

Mandatory spending in HHR accounts for \$58.4 million GF (about 26 percent) of the additional spending over the biennium and is primarily related to the loss of revenue in the Virginia Health Care Fund due to declining pharmacy rebates and tobacco tax revenues (\$19.4 million), the loss of Medicaid revenue at Piedmont Geriatric and Catawba state mental health hospitals from reclassifying the facilities (\$12.9 million), delays in transitioning individuals from state training centers to the community (\$5.7 million), and increases in the number of involuntary mental commitments (\$4.6 million).

Discretionary spending totals \$166.2 million GF over the biennium and includes a package of coverage enhancements accounting for \$119.3 million GF that includes (i) a new Medicaid behavioral health program for the seriously mentally ill with limited medical benefits; (ii) dental coverage for pregnant women; (iii) coverage of state employees' children in FAMIS; and (iv) additional enrollment of children in Medicaid and FAMIS from expanded outreach efforts. Other major spending amendments include additional funding for behavioral health services (\$8.9 million), an increase in provider rates for Intellectual and Developmental Disability waiver services (\$8.2 million), Medicaid provider changes such as a 2 percent rate increase for personal care services and elimination of the emergency room triage program (\$7.2 million), an expansion of safety net services through free clinics, community health centers, etc. (\$4.8 million), additional costs to convert the Medicaid call center to a central eligibility processing unit (\$3.3 million GF), and funding for additional local DSS eligibility workers (\$2.0 million).

Natural Resources. Adopted amendments result in an increase of \$22.9 million GF, primarily from a deposit of \$10.7 million GF to the Water Quality Improvement Fund, a deposit to the Stormwater Local Assistance Fund of \$5.0 million GF, and a deposit to the Natural Resources Commitment Fund of \$3.0 million GF. Other additional spending in the area is provided for the replacement of furnishings at state park overnight facilities and operational support costs at the Department of Conservation and Recreation to address managerial deficiencies identified by the Auditor of Public Accounts. This additional funding is offset by reductions totaling \$1.2 million GF the first year and \$1.9 million GF the second year included in Item 471.10. In addition to these reductions, more than \$2.6 million the first year and \$1.3 million the second year in the Natural Resources program balances are reverted in Part 3.

Public Safety and Homeland Security. The adopted amendments include \$31.4 million GF for the increased cost of providing medical care for inmates and a series of amendments to reduce expenditures, including closing Powhatan Correctional Center, White Post Diversion Center, and Cold Springs Work Center, as well as eliminating all equipment funding for institutions the first year. However, an additional \$4.0 million is provided for Hepatitis-C drug therapy and for filling high-priority vacant security positions the second year. In addition to the 2 percent across-the-

board salary increase effective September 1, 2015, an additional \$6.9 million is included for a \$1,000 salary increase for all correctional officers and correctional officers senior. A transfer to the general fund estimated at \$20.0 million by the end of the second year is included to account for the sale of four closed facilities (Botetourt and Pulaski Correctional Centers and the White Post Detention and Diversion Centers).

Reductions in the Department of Forensic Science total \$1.8 million GF. The central office of the Department of Juvenile Justice is reduced by \$2.4 million GF and 37 positions the second year. The reductions for the Department of State Police include transferring \$5.2 million in NGF balances the first year and \$0.6 million the second year to the general fund. Other reductions for State Police include \$2.7 million GF the first year from holding vacant 41 State Trooper positions, and another \$1.2 million GF the first year from unspecified reductions. Funding of \$3.7 million GF is provided in the second year to address State Police salary compression, in addition to funds included in Central Appropriations for a two-percent across-the-board increase and an \$80 per year-of-service adjustment for sworn employees with at least three years of continuous service (capped at 30 years).

The adopted amendments incorporate actions approved by the ABC Board in November 2014 to increase revenues by \$5.4 million the first year and \$9.5 million the second year by increasing the warehouse handling fee from \$1 to \$2 per case; increasing the markup on “miniature” bottles from 49 to 69 percent, consistent with other products; and by “rounding up” the price of products on the shelf. The transfer of net profits to the general fund is increased by \$10.8 million the first year and \$8.2 million the second year, compared to the actual profits transferred in FY 2014, which was \$140.0 million. The amendments also include nongeneral fund appropriations for several information technology and marketing initiatives to improve agency operations and profitability.

Veterans and Defense Affairs. Adopted amendments include \$1.8 million GF the second year and eight positions to enhance services provided by the field offices of the Department of Veterans Services, including the establishment of two new field offices. The amendments also include \$474,000 GF and \$100,000 NGF for the Virginia Values Veterans (V3) program and the Virginia Transition Assistance Program (VTAP) to support the transition of veterans to the civilian economy, and \$500,000 GF the second year for a new incentive program for Virginia businesses with fewer than 300 employees to hire veterans.

Technology. Adopted amendments include savings of \$18.4 million NGF to reflect decreasing utilization of desktop services provided through the Northrup Grumman Partnership, as well as savings from personnel actions. Reductions totaling \$9.4 million GF are accomplished within the savings strategies included in Item 471.10 and the balance reversions contained in Part 3. Contained within these actions are reductions of approximately \$3.0 million GF to the Innovation and Entrepreneurship Investment Authority in the first year for both the GAP Program and modelling and simulation activities.

Transportation. Adopted amendments reflect net reductions to the Commonwealth Transportation Fund revenue forecast of \$38.3 million the second year and align the agencies' program level allocations with the VDOT and DRPT Six-Year Programs adopted by the Commonwealth Transportation Board in June, 2014.

Amendments impacting the Virginia Port Authority include an increase in the nongeneral fund terminal revenue appropriation of \$16.3 million and 69 positions in the second year to reflect the implementation of the reorganization of the Virginia International Terminals and the transfer of these funds and positions to the VPA. These actions are intended to streamline operations and reduce overall costs. Also included in Part II is language authorizing the VPA to extend and/or renegotiate the operating lease for a marine terminal in Portsmouth as a capital lease.

Central Appropriations and Compensation. Adopted amendments include an additional appropriation of \$124.6 million GF the first year and \$160.2 million GF the second year. The additional spending is driven largely by the elimination in the second year of the \$29.8 million aid to localities reversion, and the transfer to the institutions of higher education of \$45.0 million each year in reversions that were adopted in Chapter 3. In the second year, the additional funding is provided primarily for a series of compensation actions described in the following paragraph. Savings of \$1.5 million GF the first year and \$23.0 million GF the second year are generated from policy changes and actuarial reductions to the State Employee Health Insurance Program, and the reversion of appropriated Health Insurance Fund cash balances. Additional new spending of \$10.9 million GF is provided to agencies for VITA charges, based on actual usage and rates.

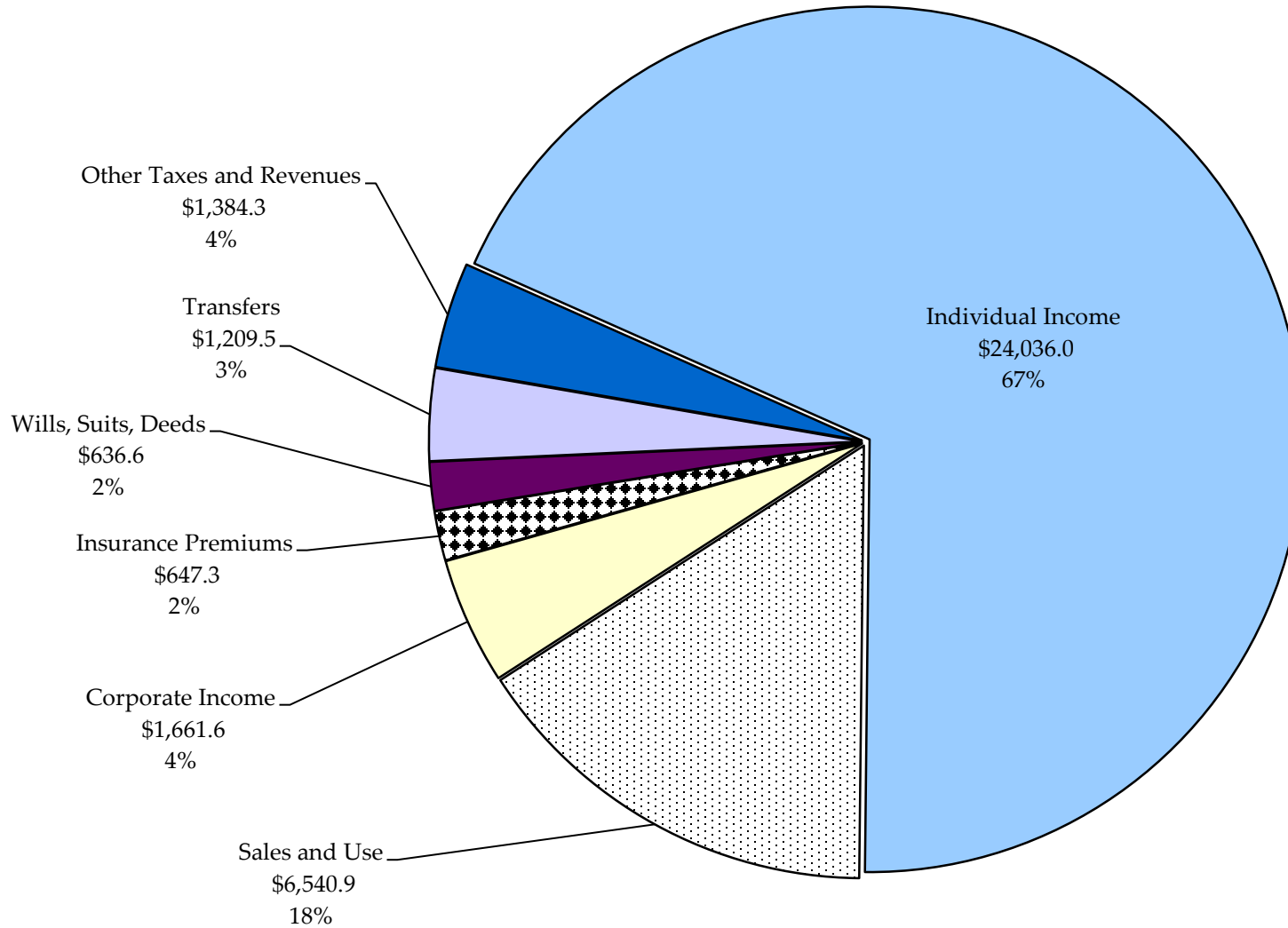
With regards to compensation, the adopted amendments establish a reserve account of \$113.9 million in revenues in the second year to provide for compensation adjustments to state and state supported local employees, as well as funding to increase the VRS contribution rates to 90 percent of the board-approved rates for the four state employee plans, contingent on official FY 2015 revenues not being more than 1 percent below forecast. A series of employee compensation actions adjust base pay for the state employees by 2 percent, adjust base pay for 17 high turnover job roles by an additional 2 percent, and provide a longevity adjustment for employees of \$65 per year of service for general classified employees and \$80 per year of service for sworn law-enforcement.

Capital Outlay. Adopted amendments to the capital outlay program total \$520.3 million (all funds). General fund amendments provide \$141.4 million to support \$9.5 million for maintenance reserve, \$106.1 million for construction of eight renovation projects, \$14.3 million for the planning pool (\$7.3 million for several new GF supported projects and \$7.0 million to supplement the existing pool), \$5.6 million to supplement the Rotunda project at the University of Virginia, \$2.8 million for a chiller project at James Madison University, and \$3.1 million for several projects at state parks. The amended budget also authorizes \$117.7 million in general fund supported bonds issued by the Virginia Public Building Authority (VPBA) and the Virginia College Building Authority (VCBA). These bonds include \$50.7 million for equipment for

previously approved projects nearing completion and \$67.0 million for two Veterans Care Centers that were previously authorized but not specifically funded.

Adopted nongeneral fund capital amendments total \$261.1 million. Approximately \$186.6 million is funded through 9(c) and 9(d) NGF revenue bonds for 11 higher education projects. Another \$74.5 million is funded with nongeneral fund cash to support another 19 projects at multiple state agencies and higher education institutions.

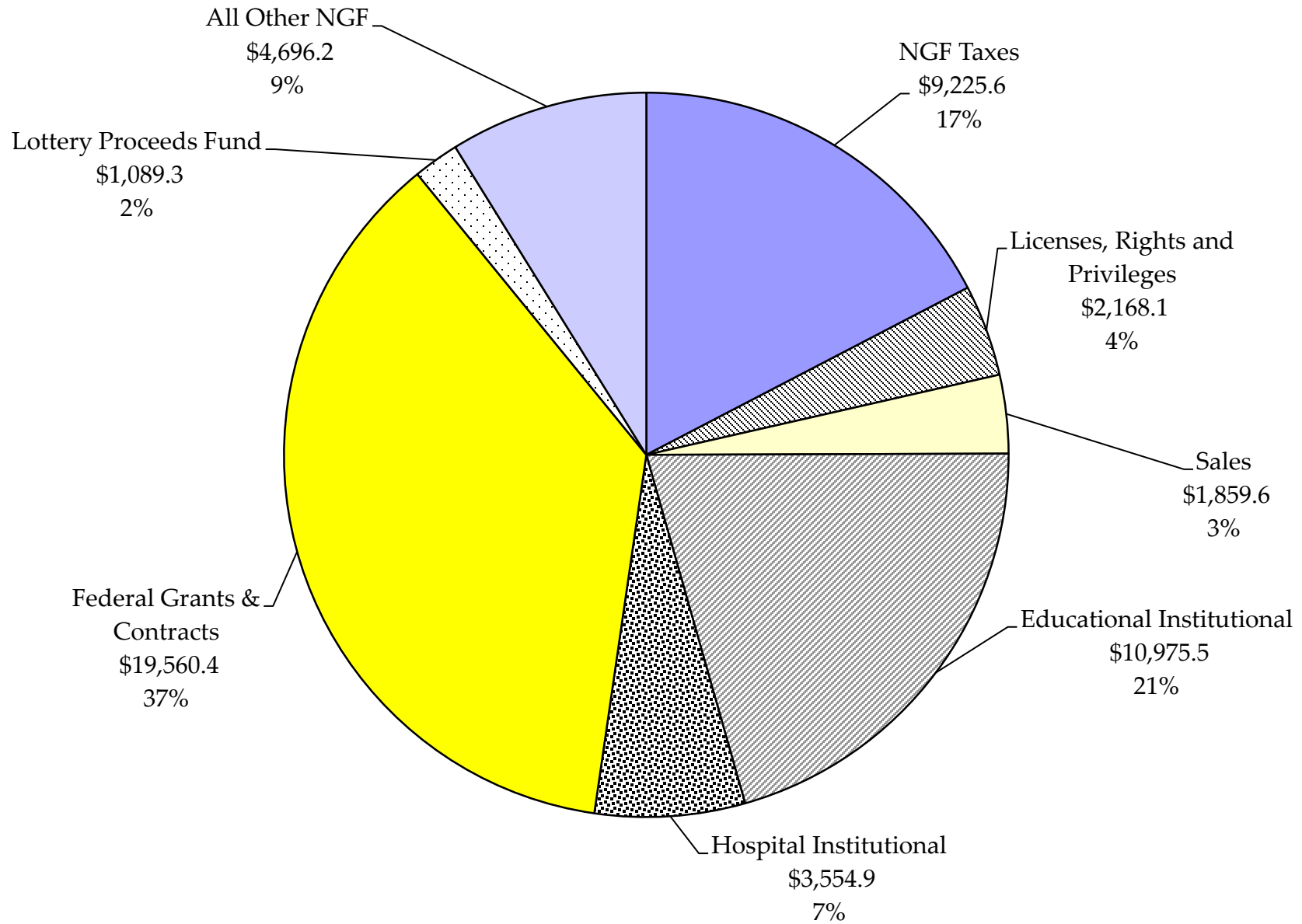
FY 2014-16 General Fund Revenues = \$36.1 Billion
Chapter 665 (HB 1400, as Adopted)
(\$ in millions)



FY 2014-16 Nongeneral Fund Revenues = \$53.1 Billion

Chapter 665 (HB 1400, as Adopted)

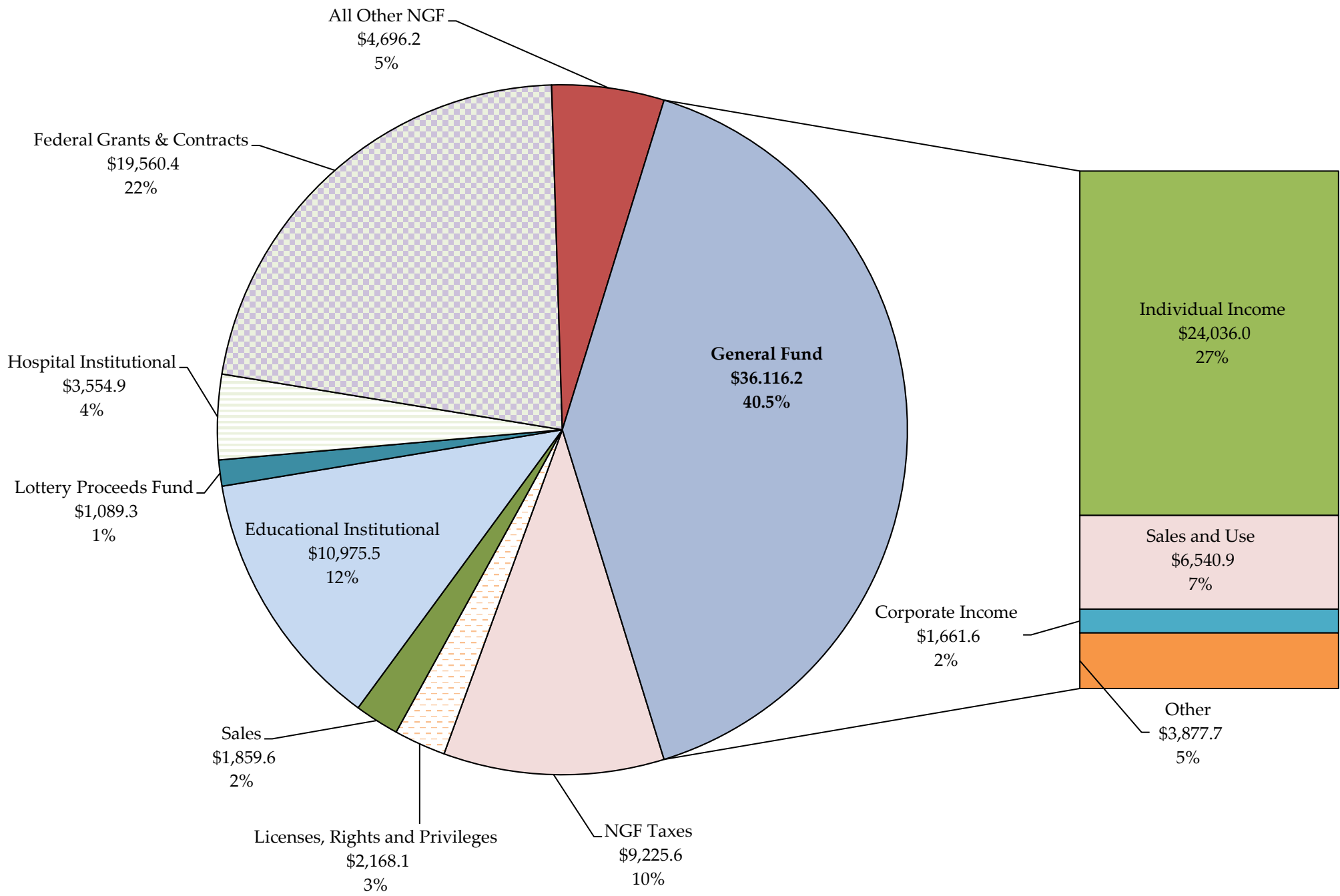
(\$ in millions)



FY 2014-16 Total Revenues = \$89.2 Billion

Chapter 665 (HB 1400, as Adopted)

(\$ in millions)



FY 2014-16 GF Operating Budget = \$36,862.8

Chapter 665 (HB 1400, as Adopted)

(\$ in millions)

