

Resource Changes for 2006-2008

The amendments to Chapter 847 of the 2008 Acts of Assembly (HB29) include a reduction of \$422.9 million in general fund resources available for appropriation in the 2006-08 biennium (below the amount assumed in Chapter 847, as adopted by the 2007 General Assembly). This amount includes: (1) an increase in balances available of \$325.1 million, (2) a reduction in the official general fund revenue forecast of \$681.3 million, (3) an increase in projected Lottery profits of \$56.8 million and (4) a decrease in Appropriation Act transfers of \$123.5 million. This overall resource reduction is partially offset by a withdrawal from the Revenue Stabilization Fund (RDF) of \$351.5 million, leaving a net reduction in general fund resources of \$71.4 million. These changes, combined with the \$6.0 million unappropriated balance from last session, leave a resource shortfall of \$65.4 million to be addressed in the budget.

The adopted budget includes a net spending reduction of \$378.2 million, leaving a total of \$312.8 million to be carried forward into the next biennium, as a beginning balance in Chapter 879 of the 2008 Acts of Assembly (HB30). (Note: This total does not include \$17.1 million which the Governor has indicated in a written communication that he plans to unallot administratively as a one-time FY 2008 savings.)

Reduction in General Fund Resources Available for Appropriation FY 2008 (\$ in millions)			
	Original Amount	Revised Amount	Difference
June 30, 2007 Balance	\$0.0	\$1,204.0	\$1,204.0
Adjustments to the Balance	<.1	(878.9)	(878.9)
Official Revenue Estimates	16,432.4	15,751.1	(681.3)
Lottery Proceeds Fund	405.4	462.2	56.8
Appropriation Act Transfers	<u>483.2</u>	<u>359.7</u>	<u>(123.5)</u>
Additional GF Resources Available for Appropriation	\$17,321.0	\$16,898.1	(\$422.9)
Plus: Unobligated Balance (Ch. 847 - 2007)			\$6.0
Plus: Withdrawal from Rainy Day Fund			351.5
Plus: Net New Spending & Budget Reductions (Ch. 847 - 2008)			<u>(378.2)</u>
HB 29 Carry Forward Balance			\$312.8

Changes in the Balance

The adopted budget includes a net increase of \$325.1 million (relative to the introduced budget) in the balance that is available to apply toward FY 2008 expenditures.

Balance adjustments reflect technical changes that are routinely required to restate the Comptroller's year-end report and the disposition of FY 2007 unspent balances. The reappropriation of unspent balances includes: \$454.2 million for active capital projects (\$300.0 million of previously approved projects will be shifted to debt and \$100.0 million in capital appropriation authority will be shifted to FY 2010, providing a total of \$400 million from unspent capital balances to assist with cash flow); \$113.0 million for mandatory balance carryforwards (Legislative, Judicial and certain Executive balances, i.e., \$20.2 million for economic contingency account and higher education student financial assistance); and \$36.3 million in discretionary balances. Operating balances carried forward include \$51.3 million generated by agencies in FY 2007 for the purpose of cushioning the effect of required budget cuts (\$110.0 million of the FY 2007 operating balances would revert to help offset the FY 2007 revenue shortfall).

The reappropriation of unspent GF balances also includes \$500.0 million earmarked for transportation; however, Chapter 879 of the 2008 Acts of Assembly (HB30) shifts \$180.0 million of this amount to transportation debt.

Adjustments to Balance (\$ in millions)	
Comptroller's GF Balance at 6/30/2007	\$1,530.3
Less: Balance Anticipated in Chapter 847 (2007)	<u>326.3</u>
FY 2007 Remaining Balance	\$1,204.0
Changes to Balance:	
Technical: Add FY 08 Rainy Day Fund	119.1
Technical: Add FY 08 payroll reserve	87.2
Technical: Move appropriation from 2nd year	8.7
Unanticipated 2007 Lottery profits	28.6
Natural Disaster match authorized	(30.3)
Reappropriation of capital balances	(454.2)
Reappropriation of operating balances	(149.3)
Unallot funds from legislative agency savings	2.8
Unallot funds based on revised spending estimate	8.8
Reappropriation of GF for transportation	(500.0)
Federal audit of Internal Service Fund/cash mgt	<u>(0.3)</u>
Total	\$325.1

Changes in Revenue

Fiscal year 2007 ended with a general fund revenue shortfall of \$234.4 million. The largest components of the shortfall were an underestimation of the impact of tax policy changes such as use of the land preservation tax credit and the low income tax credit, and a miscalculation of general fund interest earnings. The ripple effect of this shortfall in FY 2008, along with weakness in housing, nonwithholding, corporate and sales tax collections, produced a downward revision in the official revenue estimate of \$684.4 million.

Changes in GF Revenue (\$ in millions)	
	<u>FY 2008</u>
Individual Income Tax	(\$ 342.8)
Corporate	(95.8)
Sales Tax	(158.7)
Recordation	(59.4)
Insurance Premiums	7.3
Other Revenue	<u>(35.0)</u>
Total Changes	(\$684.4)

Minor adjustments, including a gas overcharge rebate and the sale of surplus property slightly lowered the negative revenue adjustment to \$681.3 million. The projected FY 2008 general fund growth rate is 1.2 percent. Actual performance through February is shown below.

Estimate of General Fund Taxes By Source FY 2008 (\$ in millions)			
	<u>Re-Forecast FY 08</u>	<u>% Growth</u>	<u>YTD thru Feb 2008</u>
Net Individual	\$10,172.5	3.9%	4.5%
Corporate	699.1	(20.5%)	(15.6%)
Sales	3,096.4	1.8%	0.9%
Recordation	495.5	(15.0%)	(19.2%)
Insurance	418.4	8.7%	17.9%
All Other	<u>866.1</u>	<u>(1.8%)</u>	<u>10.8%</u>
Total Revenues	\$15,748.0	1.2%	2.4%

Changes in Transfers

Chapter 847 of the 2008 Acts of Assembly (HB29), as adopted, assumes a lottery profit increase for FY 2008 of \$56.8 million and increased ABC profits of \$5.2 million, based on actual performance in FY 2007. The adopted budget also reflects the loss of a projected transfer to the general fund of \$120.4 million from the Revenue Stabilization Fund refund, as a refund of the amount deposited in excess of the Constitutional cap. With the withdrawal of \$351.5 million from the Fund, the cap will no longer be exceeded.

Changes in Transfers (\$ in millions)	
	<u>FY 2008</u>
Increased Lottery profits:	\$ 56.8
Appropriation Act Transfers:	
Increased ABC profits	5.2
1¼ percent Sales Tax to K-12	(9.2)
Cancel refund from Rainy Day Fund	(120.4)
Delay sale of ABC office	(15.0)
Eliminate VITA savings	(3.4)
Capture NGF balances	
(Oct. plan: State Police/DJJ/DCJS)	4.3
Capture Uninsured Motorist balances	2.5
Capture Drug Assessment Fund balances	2.0
Interest on Certain NGF accounts	5.0
IDEA Fund interest	1.4
Court debt collections	2.1
Increase Vital Records Fee (Oct. plan)	0.9
Miscellaneous other	<u>1.1</u>
Total Appropriation Act Transfers	(\$123.5)
Total Changes	(\$66.7)

Legislative

- **General Assembly of Virginia**
 - *Operating and Maintenance Costs.* Includes \$195,256 GF for FY 2008 to update the estimate by the Department of General Services of the costs of operating and maintaining space allocated to the Senate in the General Assembly Building and the Capitol.
- **Legislative Balances**
 - *Legislative Balances.* Includes language, in central appropriations, which assumes \$2.8 million in balances from legislative agencies will revert to the general fund at the end of fiscal year 2008.

Judicial

- **Supreme Court of Virginia**

- ***Criminal Fund.*** Includes \$15.0 million GF for FY 2008 to cover projected expenditures of the Criminal Fund.
- ***Courts Technology Fund.*** Adds \$1.5 million NGF for FY 2008 to reflect the current level of court fees collected under existing law for the Courts Technology Fund.
- ***Court-Appointed Attorney Fees.*** Includes a balance reduction of \$5.0 million GF for FY 2008 to reflect slower than anticipated use of the waiver provisions approved by the 2007 General Assembly for increased fees for court-appointed counsel in criminal cases involving indigent defendants.

- **FY 2008 Budget Reductions**

- ***FY 2008 Budget Reductions.*** Includes savings of \$1.0 million within the judicial branch which were implemented in coordination with the October 2007 budget reductions. The official October 2007 budget reductions were limited to executive branch agencies and therefore did not include the judicial department. The table below shows the distribution for the savings by agency.

Agency	Savings Amount
Supreme Court of Virginia	\$73,000
Court of Appeals of Virginia	20,000
Circuit Courts	15,000
General District Courts	270,000
Juvenile and Domestic Relations District Courts	177,500
Combined District Courts	75,000
Magistrate System	160,000
Judicial Inquiry and Review Commission	4,000
Indigent Defense Commission	200,000
Virginia Criminal Sentencing Commission	<u>5,500</u>
Total	\$1,000,000

- **Balances in the Waivers for Court Appointed Counsel**
 - *Funding for Waivers for Court Appointed Counsel Fees.* Includes language, in central appropriations, which captures \$5.0 million in unspent general fund balances from the \$8.2 million appropriated by the 2007 General Assembly to provide waivers for reimbursement above the caps for court appointed attorney fees.

Executive

- **Division of Debt Collection**

- *Transfer of Collections.* Eliminates the requirement to transfer \$1.3 million each year to the general fund from debt collected on behalf of state agencies. Beginning with the 2004 Appropriations Act, the division has been required to transfer to the general fund up to 40 percent of the funds it collects on behalf of agencies. This requirement has caused agencies to seek exemptions or find alternative ways to collect debt. As a result, the division has not been able to meet this requirement. Eliminating the transfer requirement is intended to encourage more agencies to utilize the division's services.

Administration

- **Compensation Board**

- *Per Diem Payments to Local and Regional Jails.* Includes an additional \$11.9 million GF the second year to compensate local governments for the cost of housing inmates in local jails based on the per diem.
- *Constitutional Officers' VRS Shortfall.* Includes an additional \$12.3 million GF in the second year to cover a shortfall in the amount budgeted for constitutional officers' VRS retirement contributions. Funding for these costs was omitted from the calculation of the 2006-2008 salary increases. The FY 2007 shortfall of \$4.8 million was addressed by an administrative transfer from FY 2008 to FY 2007, bringing the total shortfall in FY 2008 to \$12.5 million (replace \$4.8 million + \$7.5 million FY 2008 shortfall).
- *Staff Riverside Regional Jail Expansion.* Includes an additional \$0.4 million GF in the second year to staff additional jail space at the Riverside Regional Jail.

- **Department of General Services**

- *Civil Rights Memorial.* Includes \$135,000 GF to begin site work for the civil rights memorial to be located in Capitol Square.

Commerce and Trade

- **Department of Housing and Community Development**
 - *Mortgage Counseling Assistance.* Includes \$250,000 GF to provide training and assistance to counselors specializing in foreclosure prevention, loss mitigation and consumer rights under existing mortgage lending laws and regulations. These funds may be used for grants to nonprofit organizations to support new or expanded foreclosure prevention counseling services targeted to areas of the state and populations at greatest risk.
- **Department of Labor and Industry**
 - *Correct for Funding Split of Central Appropriations Amounts.* Provides \$238,000 GF in the current year for a shortfall resulting from an incorrect fund split between general and nongeneral funds in the agency's Central Appropriations distribution.

Public Education

- **Direct Aid to Public Education**

- *A listing, by locality, of the estimated funding for FY 2008 Direct Aid to Public Education is included as Appendix A.*

Technical Adjustments to Ch. 847 (2007)	FY 2008 (\$ in millions)
Enrollment – Updates indicate slower growth in Spring Average Daily Membership (ADM) and Fall Membership than projected in Ch. 847 (2007)	(\$31.6)
Sales Tax Revenue – Updates indicate slower growth than projected in Ch. 847 (2007)	(23.5)
Regional Special Education Programs Tuition	(4.0)
Virginia Preschool Initiative – Participation updates indicate more savings than projected. (Reserves \$1.3m for a 2 nd round of one-time start-up/expansion grants).	(4.0)
Education for a Lifetime Programs – Participation updates	(1.8)
Governor’s Schools – Participation updates	(0.6)
Remedial Summer School – Participation updates	(0.5)
Special Education Homebound – Participation updates	(0.5)
Incentive and Categorical Programs – Other updates	<u>2.0</u>
Total	(\$64.5)

- **Lottery Proceeds.** The adopted budget includes funding to reflect: (1) the distribution of unanticipated fiscal year 2007 Lottery profits in fiscal year 2008, (2) an increase in the fiscal year 2008 Lottery profits forecast of \$9.0 million, and (3) language authorizing the use of the Lottery Proceeds Fund for any applicable payments in Item 135, if necessary, given that fewer than four months will remain in the fiscal year. A companion amendment in Part 3 of the budget directs the Comptroller to transfer to the Lottery Proceeds Fund the balance of the State Lottery Fund for the month preceding the bill’s enactment date and thereafter on a monthly basis.
- **Governor’s October 2007 Budget Reductions.** Reduces funding by \$8.8 million GF the second year as a result of the Governor’s October reduction actions, including \$8.8 million GF supplanted by one-time Literary Fund dollars, a \$5,000 reduction

to the Southside Virginia Regional Technology Consortium, a \$2,500 reduction to the Virginia Career Education Foundation, and a \$2,500 reduction to the Virginia Educational Technology Alliance.

- ***Literary Fund.*** Consistent with the October budget reductions, which dealt only with General Fund actions, recognizes \$8.8 million NGF available on a one-time basis from the Literary Fund.

- **Department of Education**

- ***National Board Teacher Certification Bonuses.*** Adds \$404,125 GF to fully fund the 13.8 percent shortfall in FY 2008 based on the increase of the actual number of eligible teachers. Based on final fall 2007 data, 220 teachers were eligible for initial awards of \$5,000 each and 734 were eligible for continuing awards of \$2,500 each for revised total funding of \$2.9 million.
- ***Governor's October 2007 Budget Reductions.*** Reduces funding by \$978,060 GF the second year as a result of the Governor's October reduction actions, including \$280,971 from terminating the turnaround specialist contract; \$281,250 by charging 25 percent of the agency's technology costs to nongeneral funds; \$120,606 by funding two technology assessment positions with federal dollars; \$144,031 by funding three positions with federal funds; \$89,637 by eliminating a vacant position; and \$41,765 by reducing office expenses.

- **Virginia School for the Deaf, Blind, and Multi-Disabled - Hampton**

- ***Governor's October 2007 Budget Reductions.*** Reduces funding by \$158,974 GF the second year as a result of the Governor's October reduction actions by reducing the number of computers and eliminating four vacant hourly positions.

- **Virginia School for the Deaf and Blind - Staunton**

- ***Accessibility.*** Adds \$50,000 GF to address immediate accessibility needs in Staunton prior to the transfer of multi-disabled students from the Hampton campus beginning in the Fall of 2008.
- ***Governor's October 2007 Budget Reductions.*** Reduces funding by \$48,000 GF the second year as a result of the Governor's October reduction actions to cover the cost of two residential positions with nongeneral funds.

Higher Education

- **Public Colleges and Universities**

- *Governor's October 2007 Budget Reductions.* Includes reductions ranging between approximately 5.0 percent (for institutions below 100 percent of base guidelines) and 6.25 percent (for Level III institutions and institutions at or above 100 percent of base guidelines) for a savings of \$81.9 million from the general fund. Within this series of reductions are several major categories of savings including the following:
 - Reduces personnel for a savings of \$28.8 million;
 - Implements efficiencies for a savings of \$7.3 million;
 - Lowers discretionary expenditures by \$26.5 million; and,
 - Eliminates or reduces current services by \$12.4 million.
- *Virginia Cooperative Extension and Agricultural Experiment Station (Virginia Tech).* Provides \$200,000 GF to aid the recovery from a quarantine at the Marion DuPont Scott Equine Center in Leesburg, Virginia.
- *Higher Education Research Initiative.* A balance of \$1.2 million is designated to be reverted to the General Fund.

- **Other Higher Education Entities**

- *Governor's October 2007 Budget Reductions.* Provides a series of reductions, including reducing personnel and discretionary expenditures, for a savings of almost \$5.0 million from the general fund.

Other Education

- **Library of Virginia**

- *Governor's October 2007 Budget Reductions.* Reduces funding by \$1.2 million GF the second year as a result of the Governor's October reduction actions, including \$719,943 by reducing state aid for public libraries; \$350,510 by reducing purchases of books and other library materials; and \$75,000 by reducing the number of databases available for users in Find It Virginia.
- *Rent.* Reinstates \$34,099 GF for rent that had been removed in error.

- **Jamestown-Yorktown Foundation**

- *Governor's October 2007 Budget Reductions.* Reduces funding by \$410,040 GF the second year as a result of the Governor's October reduction actions, including \$140,180 by reducing wage funds for interpretation; \$71,528 by limiting outreach programming; \$38,974 by reducing marketing; \$28,900 GF by delaying equipment replacement; and \$21,956 by decreasing the frequency of daily maintenance.

- **Jamestown 2007**

- *Governor's October 2007 Budget Reductions.* Reduces funding by \$20,272 GF the second year as a result of the Governor's October reduction actions by reducing funding for security.

- **Virginia Museum of Fine Arts**

- *Governor's October 2007 Budget Reductions.* Reduces funding by \$363,735 GF the second year as a result of the Governor's October reduction actions, including \$127,735 by shifting general fund personnel costs to nongeneral funds and \$103,500 GF by better scheduling of security contracts and grounds-keeping.

- **Virginia Commission for the Arts**

- *Governor's October 2007 Budget Reductions.* Reduces funding by \$191,220 GF the second year as a result of the Governor's October reduction actions, including \$72,220 from unclaimed grant funds; \$52,000 by eliminating special initiatives for artistic and cultural organizations; and \$36,000 by deferring payment of annual dues to Mid-Atlantic Arts Foundation from June to July.

- **Science Museum of Virginia**

- *Governor's October 2007 Budget Reductions.* Reduces funding by \$165,014 GF the second year, including \$85,000 by converting equipment purchases to a long-term lease.

- **Frontier Culture Museum of Virginia**
 - *Governor's October 2007 Budget Reductions.* Reduces funding by \$51,612 GF and \$3,743 NGF the second year as a result of the Governor's October reduction actions, including \$45,000 by utilizing a live-in caretaker rather than contracting for overnight security.
- **Gunston Hall**
 - *Governor's October 2007 Budget Reductions.* Reduces funding by \$22,068 GF the second year as a result of the Governor's October reduction actions, including \$17,581 by delaying security upgrades.

Finance

- **Department of Accounts Transfer Payments**

- *Revenue Stabilization Fund Deposits.* The Constitution requires that a deposit be made to the Rainy Day Fund when the rate of growth for income and sales tax collections in a fiscal year exceeds the average growth rate for the prior six years. The required deposit is one half of the above average growth for the fiscal year, but the amount in the Fund cannot exceed a Constitutional cap. The budget, as adopted, reduces the FY 2008 Rainy Day Fund appropriation by \$69.5 million to reflect a revised calculation of the Fund cap by the Auditor of Public Accounts.
- *Northern Virginia Transportation Commission.* Includes a nongeneral fund appropriation of \$63.7 million in FY 2008 to reflect the revenues that have been generated by the additional 2 percent sales tax on gasoline within the jurisdictions which comprise the Northern Virginia Transportation Commission and the Potomac Rappahannock Transportation Commission. This additional gasoline tax was authorized in 1981 and these revenues are used to support transportation improvements within these jurisdictions.

- **Department of Taxation**

- *Contractor Collector Fund.* Authorizes the Tax Department to hire private collection agencies for the collection of delinquent accounts and to deposit proceeds into the Contractor Collector Special Fund for the purpose of paying collection fees. In recent years, administrative authority for expenditure from the Fund has been broadened to include oversight of the collection agencies, upgrade of collection systems and interfaces, and retention of experts to analyze receivables and collection techniques. The adopted budget expands the authorized use of Contractor Collector Funds to include upgrading audit functions as well.
- *Hampton Roads and Northern Virginia Regional Transportation Authorities.* Language authorizes and appropriates the direct cost to the Tax Department for administering sales tax collections authorized in HB 3202 of the 2007 Session for the two regional transportation authorities. The direct administrative cost will be deducted from sales tax collections.

- **Treasury Board**

- *Adjust Debt Service Funding.* Reduces the general fund amounts required for debt service on outstanding obligations and issuances of currently authorized General Obligation, Virginia College Building Authority, and Virginia Public Building Authority bond projects by \$4.6 million in the second year. The reductions reflect changes in the issuance of bonds, the amounts to be bonded, interest rate assumptions, and refunding and refinancing.

Health and Human Resources

- **Comprehensive Services for At-Risk Youth and Families**

- ***Mandatory Caseload and Cost Increases.*** Adds \$54.3 million GF in FY 2008 to fully fund anticipated growth in the CSA program, driven by caseload increases and rising costs, as well as law and policy changes. Caseloads are projected to increase by 8 percent, compared to recent historical growth of about 3.8 percent. Costs are expected to increase by 12 percent in FY 2008, largely due to increases in therapeutic foster care services, special education private day placements and residential treatment services.

Several changes in federal and state policies and laws have also contributed to growing costs in the program. Changes in the federal Deficit Reduction Act of 2005 have made it more difficult for children to qualify for the federally funded foster care program. In addition, federal Medicaid matching funds for most therapeutic foster care services provided to children and adolescents in CSA have been eliminated. These changes are expected to increase the state's share of CSA costs from \$5.5 million to \$17.0 million annually.

Statutory changes enacted during the Chapter 840 of the 2007 Acts of Assembly (SB1332) required that mental health services be provided to children and adolescents who are at-risk of placement in the state's custody if treatment is not provided. The Joint Legislative Audit and Review Commission (JLARC) estimated in March 2007 that this change would increase the number of children served in CSA by 753 or 4.1 percent – twice the rate of recent annual growth -- at a cost of \$14.3 million in FY 2008. In addition, the JLARC review found that current CSA policy restricting foster care preventive services was not consistent with law. Recent policy changes to comply with CSA law appear to be contributing to additional costs in the program.

- ***CSA Work Group.*** Includes budget language requiring the Secretary of Health and Human Resources to establish a work group to prepare for changes in state and local match rates. The language requires the work group to examine the impact of match rate changes on administration of the program, reporting requirements, service development and delivery, quality assurance, utilization management, and care coordination to ensure children receive appropriate and cost-effective services. The work group shall also consider future action to improve the quality of care, maximize cost effectiveness, and achieve administrative efficiencies in the program.
- ***Governor's October 2007 Budget Reductions.*** Replaces \$965,579 GF in FY 2008 with a like amount of federal Temporary Assistance to Needy Families (TANF) block grant funds for services provided according to the CSA Trust Fund. Similar amendments in the Departments of Health and Social Services leverage federal

TANF block grant funds for eligible services because recent TANF caseload declines have resulted in lower than expected expenditures of block grant dollars.

- **Department for the Aging**

- *Governor's October 2007 Budget Reductions.* Reduces \$709,441 GF the second year as a result of the Governor's October reduction actions. Funding was reduced for community-based service providers, administrative activities and to adjust appropriations to current spending levels.

- **Department of Health**

- *Governor's October 2007 Budget Reductions.* Reduces \$6.3 million GF the second year by reducing appropriations for community-based service providers, recently-enacted initiatives, and areas where nongeneral fund resources were available such as:

- *Trauma Center Funding.* Eliminating \$1.8 million GF in FY 2008 and replacing it with revenues accruing to the Trauma Center Fund from offenses related to driving under the influence and driver's license revocations. When the Fund was created in 2005, it was anticipated that revenues would total \$4.2 million annually. In FY 2007, revenues to the fund reached \$8.2 million, eliminating the need for general fund support. The fund provides revenues to hospitals with trauma centers.
- *Substitute TANF for GF in Community Programs.* Replacing \$4.0 million GF the second year to four eligible programs with a like amount of federal TANF block grant dollars. Similar amendments in CSA and the Department of Social Services leverage federal TANF block grant funds for eligible services because recent TANF caseload declines have resulted in lower than expected expenditures of block grant dollars. General fund amounts will be replaced with TANF funds in the following programs in the amount listed:
 - Comprehensive Health Investment Project - \$2,141,890
 - Teenage Pregnancy Prevention Programs - \$910,000
 - Partners in Prevention - \$765,000
 - Resource Mothers - \$176,800

- **Department of Medical Assistance Services**

- *Medicaid Utilization and Inflation.* Reduces \$49.7 million GF and \$46.3 million NGF from federal Medicaid matching funds as a result of lower than anticipated spending. Medicaid spending continues to slow, growing at a lower rate than in

previous years and less than originally forecast. The current budget assumed Medicaid spending would grow 8.6 percent in FY 2007 while actual growth was less than 6 percent. New federal rules regarding the documentation of citizenship and identity for low-income children and families on Medicaid appear to have slowed enrollment growth. While enrollment is expected to pick up, it is not projected to grow at previously anticipated rates.

- ***FAMIS Utilization and Inflation.*** Adds \$1.4 million GF and \$2.5 million NGF from federal Medicaid matching funds to adjust funding for children and pregnant women eligible for health care services. Efforts in the past five years to expand health insurance coverage for children under 200 percent of the federal poverty level (\$34,340 for a family of three) continue to result in higher caseloads in FAMIS. New citizenship and identity requirements that appear to be dampening enrollment for children in Medicaid are having the opposite effect in FAMIS where the tighter regulations do not apply.
- ***Medicaid SCHIP Utilization and Inflation.*** Adds \$861,616 GF and \$1.6 million NGF from federal Medicaid matching funds in FY 2008 to fully fund anticipated enrollment growth and costs for children eligible for health care services under the Medicaid SCHIP program. Enrollment in the SCHIP is expected to continue rising but not at the same rate as in previous years; the same citizenship and identity requirements affecting the Medicaid caseload have apparently dampened enrollment in Medicaid SCHIP. Medicaid SCHIP provides health care services to children under 19 in families with incomes between 100 percent and 133 percent of poverty (\$22,836 for a family of three). The federal government matches Medicaid expenditures for these children at the same rate as that provided for the FAMIS program (about 65 percent).
- ***Revise Estimate of Medicaid Payments.*** Reduces \$3.0 million GF and \$3.0 million in federal Medicaid matching funds to reflect lower Medicaid payments than originally estimated in the 2007 Medicaid forecast.
- ***Reduce Funding for Involuntary Mental Commitments.*** Reduces \$1.3 million GF in FY 2008 reflecting recent data that indicates payments from the Involuntary Mental Commitment Fund will be less than currently budgeted. The fund pays for the cost of hospital and physician services for individuals who are subject to the involuntary mental health commitment process.
- ***Adjust Funding for the Virginia Health Care Fund.*** Reduces \$13.3 million GF and adds \$13.3 million NGF in FY 2008 as a result of higher than anticipated revenues to the Virginia Health Care Fund. Revenues to the fund are used as a portion of the state's match for the Medicaid program. A larger than anticipated balance in the fund as of June 30, 2007 as well as higher Medicaid recoveries permits a reduction in GF revenues.

- ***Reduce Funding for Northern Virginia PACE Program.*** Reduces \$250,000 GF in FY 2008 for start-up costs related to the establishment of a PACE program in Northern Virginia. The pilot program has been slow to get off the ground.
- ***Governor's October 2007 Budget Reductions.*** Reduces \$60.6 million GF the second year primarily through lower payments for Medicaid managed care organizations (see below) but also savings strategies related to moving disabled individuals from institutional settings and better management of pharmacy programs.
 - ***Adjust Payments to Medicaid Managed Care Organizations (MCOs).*** Reduces \$60.1 million GF and \$60.1 million NGF from federal Medicaid revenues reflecting lower negotiated payment rates to Medicaid Managed Care Organizations. The budget assumed that MCO rates would increase by 7.0 percent from FY 2007 to FY 2008. The rate the Department negotiated with MCOs was actually 2.6 percent less than the rates paid in FY 2007, resulting in general fund savings that will continue in future years.
- **Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS)**
 - ***Restore Operating Costs at Central Virginia Training Center (CVTC).*** Restores \$5.3 million NGF in FY 2008 for operating costs at CVTC that were estimated to decrease through census reduction efforts in preparation for rebuilding the facilities with a more efficient design. Restructuring efforts have failed to result in a decline in the number of individuals served by the facility and plans for facility replacement have not progressed as expected. The source of the nongeneral funds is additional revenue expected to be collected by the facilities from the Medicaid and Medicare programs.
 - ***Governor's October 2007 Budget Reductions.*** Reduces \$16.9 million GF the second year by maximizing federal revenues (described below) as well as renewed efforts to streamline agency and facility operations.
 - ***Maximize Federal Medicare Part D Revenues.*** Reduces \$9.8 million GF and provides \$9.8 million NGF in FY 2008 as a result of more individuals qualifying for prescription drugs through the federally-funded Medicare Part D program. Because more individuals than previously anticipated are qualifying for Medicare Part D, fewer state dollars are needed to provide pharmacy services to individuals residing in the community or state facilities. As a result, savings of \$5.0 million GF are projected in the community resource ("aftercare") pharmacy used by CSBs and savings of \$4.8 million GF is expected for state facilities.
 - ***Maximize Federal Revenues for Inpatient Hospital Services.*** Reduces \$3.0 million GF and provides \$3.0 million NGF in FY 2008 from federal Medicare revenues reflecting more aggressive billing for inpatient hospital

- ***Adjust Appropriation for the Sexually Violent Predator (SVP) Program.*** Reduces \$1.6 million GF in FY 2008 to reflect lower caseload growth than previously anticipated in the SVP program. Civil commitments for inpatient services are down resulting in \$1.2 million GF savings. Additionally, fewer individuals are being placed on conditional release than expected resulting in \$350,000 GF savings.
- **Department of Rehabilitative Services**
 - ***Governor's October 2007 Budget Reductions.*** Reduces \$1.3 million GF the second year by offsetting program support with nongeneral funds but also through reductions of three percent for independent living and long-term employment support services.
- **Woodrow Wilson Rehabilitation Center**
 - ***Governor's October 2007 Budget Reductions.*** Reduces \$334,978 GF the second year primarily as a result of administrative efficiencies.
- **Department of Social Services**
 - ***Offset Loss of Federal Funds for Child Welfare Services.*** Adds \$3.9 million GF and reduces \$3.9 million NGF each year to reflect lower reimbursements from the federal government for child welfare services provided by local departments of social services. Federal authorities required the Department to resubmit a new cost allocation plan after the existing plan resulted in the disallowance of \$53 million in federal Title IV-E reimbursements for child welfare services in FY 2006. In general, the Department's cost allocation plan defines the share of federal and state spending for specific child welfare services and activities. Funding is necessary to maintain support for local staff that provides child welfare services to children and families.
 - ***TANF for Child Care Services for At-risk, Low-income Families.*** Adds \$6.0 million NGF in FY 2008 from the federal Temporary Assistance to Needy Families (TANF) block grant to provide additional funding for child day care subsidies for low-income families. This additional funding will address about 22 percent of the waiting list for child day care subsidies.
 - ***Governor's October 2007 Budget Reductions.*** Reduces \$10.9 million GF the second year by using federal TANF block grant dollars for previously funded general fund activities but also adjusting appropriations to current spending levels for the General Relief and Auxiliary Grant Programs.

- ***Reduce Funding for General Relief.*** Reduces funding by \$1.2 million GF the second year to reflect actual spending for the General Relief program that provides cash assistance and services to individuals with no or very little income. General Relief is a voluntary program provided by localities that agree to match state funding. In FY 2007, some localities did not expend their full allocation resulting in unspent appropriations. The new general fund appropriation will be \$3.5 million each year.
- ***Caregivers Grant Program.*** Reduces \$500,000 GF the second year for the Virginia Caregivers Grant Program. Funding will be limited to \$500,000 GF per year. The program provides up to \$500 each year for a caregiver who has an annual income less than \$75,000 and who provides unreimbursed care for a person who is aged, infirm or disabled. Chapter 588 of the 2007 Acts of Assembly (SB790) increased the income limit for a married caregiver to \$75,000 annually.

- **Department for the Blind and Vision Impaired**

- ***Governor's October 2007 Budget Reductions.*** Reduces \$346,875 GF the second year through administrative actions.

Natural Resources

- **Department of Game and Inland Fisheries**
 - *Reduction in General Fund Transfer.* Language is included reducing the total general fund support provided to the agency by \$1.3 million in the second year. The reductions in the agency's general fund support are based on reductions in the estimated sales taxes collected on hunting, fishing, and wildlife-related equipment and reductions in the revenues derived from watercraft sales and use taxes. An accompanying entry in Part 3 of the introduced budget effects the change.

Public Safety

- **Department of Alcoholic Beverage Control**

- *Governor's October 2007 Budget Reductions.* Increases the level of transfers to the general fund by \$3.5 million by recognizing the additional sales volume resulting from the expansion of store hours in certain locations and by modifying the discount methodology for alcoholic beverages to increase the return to the Commonwealth.

- **Department of Correctional Education**

- *Governor's October 2007 Budget Reductions.* Includes a series of reductions that include maintaining position vacancies for a savings of \$1.9 million from the general fund.

- **Department of Corrections**

- *Correctional Officer Compensation.* Provides \$1.1 million from the general fund for salary increases for FY 2008 to account for the growth in the number of employees added by opening new and expanded state correctional facilities.
- *Governor's October 2007 Budget Reductions.* Includes a series of reductions totaling \$18.9 million from the general fund, including:
 - A reduction in equipment purchases for a one-time savings of \$3.6 million;
 - A delay in the opening of Phase II prison beds at St. Brides Correctional Center in the City of Chesapeake for a one-time savings of \$8.6 million;
 - The elimination of \$1.2 million for site acquisition for the new prison in Charlotte County, which is based on the assumption that the site will be included in the financing for the overall project; and,
 - The anticipation of \$4.0 million NGF in contract revenues from holding up to 500 federal or other non-state prisoners. Up to 1,000 federal or other non-state prisoners will be held during the 2008-10 biennium.
- *Sex Offender Monitoring.* Includes language within Central Appropriations reducing the amounts for sex offender monitoring using global positioning system (GPS) and other tracing devices by \$1.5 million, or 37 percent.
- *Craigsville Wastewater Treatment Plant.* Captures an unexpended balance of \$1.0 million GF for the state share of the capital cost of a local wastewater treatment plant to be constructed by the Town of Craigsville. An estimated 56 percent of the plant's capacity will be required to serve Augusta Correctional

Center. Water Quality Improvement Fund grants and loans are available through DEQ for part of the state share. A companion amendment to House Bill 30, as adopted, provides the balance of the state share from Virginia Public Building Authority Bonds.

- **Department of Criminal Justice Services**

- *Governor's October 2007 Budget Reductions.* Includes savings totaling \$11.7 million to implement the October 2007 budget reduction plan. Of this total, \$10.8 million represents a five percent reduction in State Aid to Localities with Police Departments (HB 599) and \$87,869 represents a 7.4 percent reduction in aid for regional criminal justice training academies.

- **Department of Emergency Management**

- *Governor's October 2007 Budget Reductions.* Includes savings totaling \$462,000 to implement the October 2007 budget reduction plan, including:
 - A reduction of \$125,000 (5 percent) in the \$2.5 million grant approved by the 2007 General Assembly for an emergency evacuation facility to be established at the new Virginia State Fairgrounds in Caroline County, and
 - A reduction of \$108,000 (10.3 percent) in the All-Hazards Initiative for the citizen alert network, EMNet for Tidewater and Central Virginia local governments, and continuity of operations planning.

- **Department of Forensic Science**

- *Payments in Lieu of Taxes.* Provides \$218,643 from the general fund for FY 2008 for payments to the City of Richmond for the central laboratory in Richmond, which is now state-owned.
- *Governor's October 2007 Budget Reductions.* Includes a series of reductions totaling \$1.7 million, including a reduction of \$752,225 in payments to the Virginia Institute of Forensic Science and Medicine due to the development of more cost-effective training strategies.

- **Department of Juvenile Justice**

- *Governor's October 2007 Budget Reductions.* Includes a series of reductions totaling \$7.0 million, including a 2.5 percent reduction in state aid for the operation of local and regional juvenile detention homes, Virginia Juvenile Community Crime Control Act grants, and reimbursement of locally-operated court services units. These three reductions in state aid provide a combined savings of over \$1.2 million. Other reductions, totaling \$2.0 million, replace general fund costs for the maintenance of the juveniles cared for by the agency with child support payments received by the Commonwealth for those juveniles.

- **Department of State Police**
 - *Increased Gasoline Costs.* Includes \$2.4 million from the general fund the second year for the increased cost of gasoline for state police vehicles.
 - *Governor's October 2007 Budget Reductions.* Includes a series of reductions totaling \$5.0 million, including:
 - Increasing the mileage on state police vehicles before replacement to 130,000 miles, thereby reducing the number of vehicles to be purchased, for a savings of \$1.4 million; and
 - Delaying the start of the 115th basic school for new state troopers which was scheduled to begin on February 25, 2008, until the next biennium, producing savings of \$1.6 million.
- **Department of Veterans Services**
 - *Start-up Loan for New Center.* Increases the amount of the anticipation loan for the Sitter-Barfoot Veterans Care Center located in Richmond by \$1.4 million due to a delay in the facility's opening. The loan is required to cover expenses until nongeneral fund reimbursement is received to cover the operating costs.

Transportation

- **Secretary of Transportation**
 - *Prohibit Supplanting of Existing Transportation Funds.* Prohibits localities from using new revenues generated through local-option taxes and fees authorized by Chapter 896 of the 2007 Acts of Assembly (HB3202) to supplant any local funds provided for transportation purposes.
- **Department of Rail and Public Transportation**
 - *Increase Appropriation to Reflect November 2007 Revenue Estimate.* Increases the agency's appropriation by \$35.8 million NGF the second year to reflect the latest revenue estimates for the Transportation Trust Fund and federal funds and to reflect the November 2007 official revenue estimate.
- **Department of Transportation**
 - *Increase Appropriation to Reflect November 2007 Revenue Estimate.* Increases the agency's appropriation by \$325.5 million NGF the second year to reflect the latest revenue estimates for the Transportation Trust Fund and federal funds and to reflect the November 2007 official revenue estimate
 - *2007 Transportation Initiative.* Includes language that allows the transfer of general funds to projects included in the 2007 Transportation Initiative only as necessary to meet required expenditures within FY 2008. This language accompanies action in Chapter 879 of the 2008 Acts of Assembly (HB30), as adopted, that reverts \$180.0 million GF from transportation in FY 2009 to fund other general fund expenditures. Chapter 879 authorizes new Commonwealth Transportation Bond debt to be issued for these amounts in fiscal year 2009.
 - *Meadowville Interchange.* Adds the I-295/Meadowville interchange to the list of projects that are eligible for funding from the Transportation Partnership Opportunity Fund allocations from 2007.
 - *Toll Facility Maintenance.* Clarifies that no additional allocations shall be made from Commonwealth Transportation Funds for maintenance of the Chesapeake Bay Bridge Tunnel and authorizes VDOT to pay for maintenance on other toll facilities.
- **Virginia Port Authority**
 - *Reconstruction and Expansion of Norfolk International Terminal and Portsmouth Marine Terminal.* Authorizes the Authority to issue up \$93.0 million in additional bonds for the purposes of continuing ongoing capital projects for reconstruction

and expansion of Norfolk International Terminal and Portsmouth Marine Terminal and provides \$250,000 NGF in the second year for related debt service payments.

- ***Governor's October 2007 Budget Reductions.*** Reduces \$50,000 GF the second year as a result of the October 2007 budget reduction actions. The reduction comes from general funds provided for payments in lieu of taxes to localities that host port facilities.

Central Appropriations

- **FY 2008 Budget Reductions**
 - *Governor's October 2007 Budget Reductions.* Includes a \$272.0 million GF reduction and related language to capture the effect of the October 2007 budget reductions. A detailed list of these reductions is included in Appendix C.
 - *Two Year College Transfer Grants.* Removes the remaining \$200,000 GF appropriation from the two year college transfer grant initiative. Included in the October 2007 budget reductions is a \$1.6 million GF reduction, out of the \$1.8 million appropriated for FY 2008, to the transfer grant program. The first grants will not be issued until the fall of 2009 so funding is not need in FY 2008.
- **Higher Education Interest**
 - *Higher Education Interest and Charge Card Rebates.* Provides an additional \$4.7 million GF in the second year to pay institutions of higher education interest on NGF balances held by the state treasury and a prorated share of rebates received by the Commonwealth on credit card purchases. This action results in a total appropriation for this purpose in FY 2008 of \$17.4 million GF.
- **Economic Contingency**
 - *VITA Savings.* Includes \$4.9 million GF to forgive savings that had been projected to accrue from creation of the Virginia Information Technologies Agency (VITA).
 - *VITA Rates.* Includes \$4.7 million for the general fund share of increases in the rates charged by VITA under the Northrop Grumman contract for the provision of information technology services.
 - *Governor's Development Opportunity Fund.* Includes an additional \$0.75 million GF the Governor's Development Opportunity Fund. This action brings the total appropriated for the fund to \$15.9 million GF for the biennium.
- **Presidential Primary**
 - *2008 Presidential Primary.* Provides \$2.5 million GF to cover the costs associated with the 2008 presidential primary. Out of this amount, up to \$220,000 may be used to cover costs incurred by the State Board of Elections with remaining \$2.28 million set aside to reimburse localities for cost incurred as a result of the primary.
- **Water Quality Improvement Fund**
 - *Water Quality Improvement Fund.* Captures \$15.0 million GF in appropriations for upgrading wastewater treatment plants. This appropriation is not needed due

to sufficient balances in the Water Quality Improvement Fund, because construction of wastewater treatment plant upgrades take several years and because \$250 million in bonds have been authorized to finance these projects.

- **Agency Balances**

- ***Executive Agency Balances.*** Reverts \$14.0 million in GF balances in the second year from executive agency balances that were carried forward from fiscal year 2007. The language specifies the reversion amounts from 20 specific executive branch agencies. The largest reversion amount is \$9.2 million from the Community College System.
- ***Higher Education Research Initiative Balances.*** Unallots \$1.2 million GF in the second year from the Higher Education Research Initiative. The FY 2008 appropriation for this initiative, prior to the unallotment, was \$5.3 million.
- ***Department of Corrections Balances.*** Reverts \$1.0 million GF in FY 2008 from the Department of Corrections in unspent appropriations for the Commonwealth's share of the costs of constructing a wastewater treatment plant for the Town of Craigsville. The Department of Corrections and the town of Craigsville are still in the process of finalizing a contract for the Augusta Correctional Center's future usage of the facility and the General Fund appropriation will be replaced with bond proceeds contained in 2008-2010 Appropriation Act.
- ***Virginia Health Department Balances.*** Captures \$600,000 GF in unspent balances in the second year from the Virginia Department of Health in the Immunization program, due to lower than projected expenditures on the Human Papilloma Virus vaccine.
- ***Department of Social Services Balances.*** Captures \$1.0 million GF in balances the second year in unexpended appropriation in the Auxiliary Grants for the Aged, Blind and Disabled program.
- ***Legislative Agency Balances.*** Authorizes the reversion on \$2.8 million GF in the second year in unspent balances in legislative agencies.
- ***Judicial Branch Balances.*** Captures \$5.0 million GF in the second year in an unspent appropriation for the Supreme Court, which was appropriated for the waivers of the caps on the reimbursement for court appointed counsel fees. The expenditures for the waivers have been significantly below the initial \$8.2 million appropriation.

Nonstate Agencies

The budget, as adopted, reduces funding for grants to nonstate agencies by \$1.2 million GF the second year. A 5 percent reduction was applied across the board to the \$26.7 million GF total grants awarded as part of the October 2007 budget reduction actions, and all grantees were requested to return the funding if it had already been provided.

In addition, the adopted budget exempts the Railroad Museum of Virginia and the Virginia Recreational Facilities Authority Explore Park from the matching requirements.

Capital Outlay

The adopted budget adds a total of \$459.3 million (all funds) in capital project funding in FY 2008. The budget reduces previously funded project planning by \$5.4 GF. In addition, \$300.0 million in bonds from the Virginia College Building Authority and the Virginia Public Authority are authorized to supplant general funds in previously authorized capital projects. A separate action authorizes the reversion of the \$300.0 million general fund from the projects. In addition, other actions authorize cash flowing \$100 million of capital projects in order to manage the budget shortfall. Nongeneral fund increases total \$164.7 million, of which \$93.0 million is from Virginia Port Authority bonds, \$31.0 million is for 9(d) NGF revenue bonds and \$40.7 million in nongeneral fund revenues primarily for higher education projects.

Adopted Capital Outlay Amendments (2006-08 Biennium)	
<u>Fund Type</u> (Ch. 847 - 2008)	<u>\$ in Millions</u>
General Fund	(\$5.4)
VPBA / VCBA Bond Supplant	300.0
9(d) NGF Revenue Bonds	31.0
Virginia Port Authority Bonds	93.0
Nongeneral Funds	<u>40.7</u>
GRAND TOTAL	\$459.3

Descriptions of selected projects follow.

- **Actions to Manage the Budget Shortfall**
 - ***Project Supplants.*** Reverts \$300.0 million GF from previously authorized projects and supplants the funds with bond proceeds from the Virginia College Building Authority and the Virginia Public Building Authority.
 - ***Cash Flow Capital Projects.*** Sets aside \$100.0 million from previously authorized capital projects based on the projected cash flow needs. Each project would continue forward with the cash flow amounts being reappropriated in fiscal year 2010 when it is anticipated that they will be expended. No project delays are anticipated from this action.

- *Revert Unused Project Balances.* Reverts \$0.5 million in general fund balances from sixteen projects which have been completed.
- **Department of General Services**
 - *Washington Building.* Provides \$11.0 million NGF anticipatory loan to complete the renovation project. The loan will be repaid from the litigation settlement.
 - *Capitol Square Stairs.* Provides \$0.6 million NGF to complete steps between the Jefferson and Oliver Hill buildings.
 - *Energy Conservation Projects.* Provides \$0.2 million NGF for energy conservation projects at the seat of government.
- **Virginia Port Authority**
 - *Norfolk International Terminal-South.* Provides \$93.0 million from Virginia Port Authority bonds for renovations, improvements and land acquisition at the Norfolk International Terminal-South.