

SENATE OF VIRGINIA

Senate Finance Committee

Overview of SB 800

Proposed Amendments to
Chapter 3, 2014-16 Budget

January 20, 2015



SENATE FINANCE COMMITTEE

Presentation Outline

- Overview/Resources**
- K-12 Public Education**
- Higher Education**
- Capital Outlay**
- Health and Human Resources**
- Public Safety and Homeland Security**
- Veterans and Defense Affairs**
- Judicial Department and Compensation Board**
- Commerce and Trade**
- Agriculture and Forestry**
- Natural Resources**
- Transportation**
- General Government**
 - Technology, Administration, Finance**



Overview/Resources



SB 800, as Introduced

- Uses Chapter 3 (budget enacted in November) as the starting point.
- No significant revenue forecast change beyond the August interim forecast for FY 2015 and FY 2016.
- Includes \$176.6 million of additional spending, of which about \$100.0 million addresses high priority, mandated items.
- Budget reduction strategies address the remaining reversion amounts of \$49.8 million in FY 2015 and \$272.0 million in FY 2016 included in Chapter 3.
- Includes \$114.3 million of tax policy actions to address gap between net spending and available resources.



Recap of 2014: How did we get here?

- **December, 2013:** Governor McDonnell's biennial budget, SB 30 as introduced, included \$1.8 billion in additional revenues.
- **February, 2014:** First hint of trouble – revenues for FY 2014 reduced by \$125 million in the Caboose Bill, and \$15 million in FY 2015 in SB 30 (as passed by the Senate).
- **March, 2014:** Adjourned *sine die* without passing a biennial budget.
- **June, 2014:** Chapter 2 of Special Session I, the 2014-16 biennial budget bill, addressed an *anticipated* budget shortfall of about **\$1.55 billion**. Strategies to close the shortfall:
 - Set-aside budget reversion accounts totaling \$842.5 million (mostly from reducing new spending in budget).
 - Anticipated withdrawals from the Rainy Day Fund totaling \$705.0 million.



Recap of 2014:

Fiscal Year Ends with a Revenue Shortfall

- **July, 2014:** FY 2014 revenues fell short by \$437.8 million (more than the \$350 million anticipated).
- **August, 2014:** Governor McAuliffe presented a revised revenue forecast to the Joint Money Committees, as required.
- **September, 2014:** SB 5005/HB 5010 were introduced to **amend** Chapter 2, the budget adopted in June.
 - Updated revenues to reflect the downward revisions to the forecast as presented by the Governor in August.
 - Included actions to close the *remaining* budget shortfall of \$345.5 million in FY 2015 and \$536.0 million in FY 2016.
 - Reversion clearing accounts allowed Governor to provide guidance to state agencies, local governments, and colleges on the actual reduction strategies employed for FY 2015.



Recap: Closing the Budget Gap

<i>(\$ in millions)</i>	FY 2015	FY 2016	Total
Chapter 2 Official Revenues	\$17,721.9	\$18,448.6	\$36,170.5
August Interim Forecast	<u>16,862.4</u>	<u>17,313.3</u>	<u>34,175.7</u>
Variance	(\$859.5)	(\$1,135.3)	(\$1,994.8)
FY 2014 Revenue Shortfall	<u>(437.8)</u>	<u>0</u>	<u>(437.8)</u>
Total Shortfall	(\$1,297.3)	(\$1,135.3)	(\$2,432.6)
<i>Strategies to Close Gap:</i>			
Ch. 2 Revenue Reserve Fund	\$481.8	\$364.3	\$846.1
Rainy Day Fund Withdrawal	<u>\$470.0</u>	<u>\$235.0</u>	<u>\$705.0</u>
Remaining Shortfall	(\$345.5)	(\$536.0)	(\$881.5)



Recap: Chapter 3

Closing the Budget Gap

- A combination of resource actions and spending cuts were adopted in Chapter 3 to close the remaining shortfall of \$881.5 million.
 - As adopted and amended in November, 2014, Chapter 3 includes \$267.1 million in agency balances and transfers.
 - Four reversion accounts totaling \$614.4 million provided parameters for budget cuts to be identified by the Governor.

(GF \$ in millions)	<u>FY 2015</u>	<u>FY 2016</u>
Balances/Transfers/Other	\$219.1	\$ 48.0
Reversion Accounts:		
State Agencies	\$ 92.4	\$100.0
Higher Education	45.0	45.0
Aid to Localities (no K-12)	30.0	30.0
<i>Miscellaneous/Other Actions</i>	<u>0.0</u>	<u>272.0</u>
Total	\$386.5	\$495.0



SB 800: GF Resource Changes

	<u>Chapter 3</u>	<u>Revised</u>	<u>Change</u>
Unrestricted Balance	\$ 40.8	\$ 405.8	\$365.0
Additions to Balance	304.5	(217.9)	(522.4)
Revenue Estimates*	34,191.7	34,386.7	195.0
Revenue Stabilization Fund	705.0	705.0	0.0
Transfers	1,143.2	1,197.5	54.3
Available GF Resources	\$ 36,385.2	\$ 36,477.1	\$91.9
Ch. 3 Unappropriated Balance			2.9
SB 800 Resources			\$94.8

**Including proposed tax policy adjustments.*



SB 800: GF Revenue Outlook

- Economic revenue growth rate remains unchanged from the Interim Forecast in Ch. 3, with projected growth of 2.7 percent in FY 2015 and 2.9 percent in FY 2016.
 - In comparison, SB 30 (2014 Regular Session) assumed growth rates of 4.1 percent for FY 2015 and 4.0 percent for FY 2016.
- Technical adjustments increase revenues by \$80.7 million. Proposed tax policy changes add \$114.3 million to the estimate.
- A mid-session review of the forecast will take place in February. Data will include December sales figures and a few more months of actual revenue collections.



Tax Policy Proposals Add \$114.3 million in Revenues

- 1) Coalfield Employment Enhancement Tax Credit – Limits credit claimed on each annual tax return to \$500,000. Provides a five-year carryover for unused credits (**savings of \$14.7 million in FY 2016**);
- 2) Virginia Coal Employment and Production Incentive Tax Credit – Lowers the credit from \$3.00 per ton of coal to \$2.00, limits the credit amount to \$500,000; extends the period for claiming unused credits from 10 years to 12 years for credits already earned, and prospectively establishes a five-year carryover for unused credits (**savings of \$5.2 million in FY 2016**);
- 3) Deduction for Long-Term Care Insurance Premiums – Reduces income tax deduction from 100 percent of annual premium payments to 50 percent (**savings of \$9.4 million in FY 2016**);
- 4) Land Preservation Tax Credit – Limits credit to \$20,000 for a single filer and \$40,000 for joint filers. Extends the period for claiming unused credits from 10 years to 13 years (**savings of \$22.4 million in FY 2016**);



Tax Policy Proposals

- 5) Combines the three existing sales tax holidays (school items, energy-efficient products and hurricane preparedness products) to three days in August of each year (**savings of \$1.6 million in FY 2015 and \$1.0 million in FY 2016**);
- 6) Requires that the sales tax and local transient occupancy tax paid on hotel and motel accommodations be remitted on the basis of the retail sales price to the customer, as opposed to the discounted wholesale price paid by accommodation intermediaries (**\$1.7 million in FY 2016**);
- 7) Repeals income tax subtraction from gain on sale of land devoted to open-space (**savings of \$0.5 million in FY 2016**);
- 8) Reduces the threshold for remittance of the June accelerated sales tax from taxable sales of \$26.0 million to taxable sales of \$2.5 million (**\$39.2 million in FY 2015 and \$18.6 million in FY 2016**).



NGF Fee Increases

Agency savings strategies to supplant general funds

Agency	NGF Fee Description	FY 2015	FY 2016
Division of Consolidated Labs	Increase commercial lab certification fees.		\$250,000
Division of Consolidated Labs	Charge Lottery for full cost of lab testing.		\$89,250
Agriculture and Consumer Services	Replace GF support for food establishment inspections with tiered fee based on sf, ranging from \$40 to \$375.		\$400,000
Agriculture and Consumer Services	\$10 per device fee for the weights and measures program to replace GF support.		\$500,000
Roanoke Higher Ed. Authority SW Virginia HE Center	\$20 per semester student parking fee. Fees for STEM workshops and a regional robotics tournament.	\$4,100	\$8,400 \$5,000
TAX Department	\$12 fee for each roll of tobacco stamps.		\$221,568
Health Department	Reduce GF costs for the restaurant inspection program by increasing inspection fees from \$40 to \$285.		\$6,878,620
Health Department	Increase fee copies of pathology reports to cover the cost of a pathologist.		\$200,000
Behavioral Health & Developmental Services	Administration fee from \$13 to \$23 per transaction for background checks.	\$92,056	\$138,024
Behavioral Health & Developmental Services	\$15 fee for the on-line training system used by CSBs and private providers.	\$58,500	\$117,000
Social Services	Increase fee for child protective services registry checks from \$7 to \$10.		\$225,000
Social Services	Increase fee for national background checks from \$50 to \$60.		\$82,000
Conservation and Recreation	Increases several state park fees to replace existing GF support.		\$870,144
Marine Resources	Increase Saltwater Fishing license fees.		\$550,000
DEQ	Class A Biosolids fee of \$3.75 per ton.		TBD



SB 800: Proposed Amended 2014-16 GF Budget

(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
Proposed Adjustments	<u>(61.1)</u>	<u>153.0</u>	<u>91.9</u>
Available Resources	\$18,216.0	\$18,261.2	\$36,477.2
Chapter 3, 2014 SSI - Appropriations	\$18,261.6	\$18,120.6	\$36,382.2
Net New Operating Spending	(168.3)	255.5	87.2
Capital Outlay Spending	<u>0.2</u>	<u>0.0</u>	<u>0.2</u>
Total Proposed Appropriations	\$18,093.5	\$18,376.1	\$36,469.6
Unappropriated Balance	\$122.5	(\$114.9)	\$7.6



SB 800: Major Spending Items

(\$ in millions)	<u>2014-16</u>
DOC: Inmate Medical Costs	\$31.4
Governor's Development Opportunity Fund	20.7
Criminal Fund: Indigent Defense	13.4
DBHDS: Replace revenue - geriatric hospitals	12.9
Comp Board: Jail per diems	11.3
VITA: IT and Telecom charges to agencies	10.8
DBHDS: Delayed discharge from state facilities	5.7
CSA/ DSS: Extend foster care to age 21	5.7
All Other Spending	64.7
Total, Proposed Spending	\$176.6



SB 800: Budget Reduction Strategies

(\$ in millions)	<u>2014-16</u>
DMAS: Medicaid and FAMIS Forecast (net)	(\$216.0)
K-12: Lottery and Literary Fund NGF	(54.1)
K-12: Lower than projected enrollment growth	(30.8)
Employee health insurance - utilization, co-pays	(26.3)
Treasury Board: Debt service savings	(24.2)
K-12: Recalc. of employer retirement contr. rates	(10.4)
Additional state agency reductions	(17.4)
Discretionary carry-forwards reverted	(15.4)
Miscellaneous reversions	(55.2)



K-12 Public Education



Direct Aid to Public Education

Summary

- Proposed amendments 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.
- Treasury estimates realization of \$250.0 million from the sale of unclaimed property stocks that can be made available for use in the Literary Fund.
 - One-time payment of \$150.0 million to VRS to help address the unfunded liability; and capture \$10.4 million GF savings by applying a lower teacher retirement employer contribution rate.
 - \$50.0 million for VPSA school construction loans, \$25.0 million for an “interest rate subsidy” buy-down in lieu of loans, and \$25.0 million to offset GF costs for SOQ retirement.
- Proposed policy changes include use of any unused but appropriated funds for the Virginia Preschool Initiative for at-risk four-year-olds to school divisions that are using all of their state-funded slots and that also have waiting lists (instead of sweeping end-of-year balances that may exist even after assumed non-participation); and allocating \$537,297 GF to support innovative methods of serving breakfast meals to students.
- In DOE, \$1.3 million GF related to under-performing schools and \$932,000 GF related to Standards of Learning (SOL) tests. Central Account reductions include eliminating the digital content contract, contract funding for the new Virginia Center for Excellence in Teaching at George Mason University, and Education Commission of the States dues.



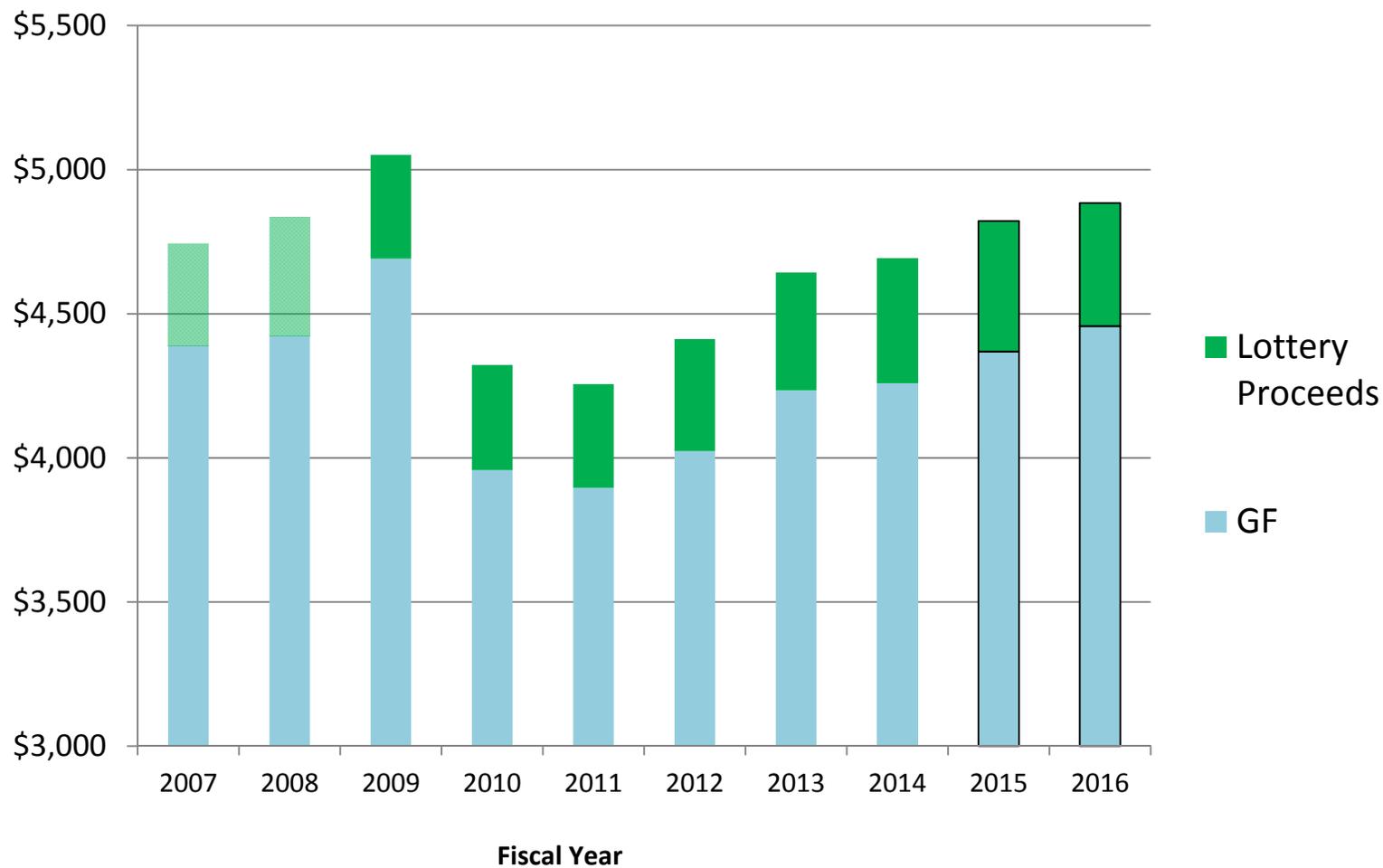
Overview

Direct Aid to Localities for Public Education

	FY 2015		FY 2016	
	GF	NGF	GF	NGF
<u>Total \$ (in Millions)</u>				
Base Budget (Ch. 3)	\$5,498.6	\$1,532.2	\$5,590.5	\$1,495.6
Net Change, As Introduced	(96.4)	84.2	(44.8)	180.1
SB 800, As Introduced	\$5,402.2	\$1,616.5	\$5,545.7	1,675.7
% Change	(1.8%)	5.5%	(0.8%)	12.0%
<u>\$ Per Pupil (Unadj. ADM)</u>				
SB 800, As Introduced	\$4,369	\$1,307	\$4,457	\$1,347
Net Change	(\$78)	\$68	(\$36)	\$145
% Change	(1.8%)	5.2%	(0.8%)	10.7%



Per Pupil State Funds for Direct Aid to Public Education



From FY 2009 to FY 2013, Local Funds Have Made Up for Part of the Decrease in State Funds

Per Pupil	FY 2007	FY 2009	FY 2011	FY 2013
State	\$3,770	\$4,175	\$3,375	\$3,652
State Sales Tax	955	907	928	954
Local	5,145	5,504	5,371	5,777
Federal	<u>714</u>	<u>729</u>	<u>1,119</u>	<u>875</u>
Total	\$10,584	\$11,316	\$10,793	\$11,257

Source: Table 15, Superintendent's Annual Report, Virginia Department of Education



Proposed Actions for Direct Aid (\$ in Millions)	FY 2015	FY 2016	Total
Update Net Sales Tax Redistribution	\$0.0	\$1.6	\$1.6
Correct Data	0.7	0.0	0.7
Update Incentive and Categorical Programs	(1.8)	(0.8)	(2.6)
Update Net Sales Tax Revenue Reforecast	(2.4)	(3.6)	(6.0)
Update Student Enrollments	(6.4)	(7.8)	(14.2)
Update GF for Lottery-Funded Programs	(12.2)	(4.1)	(16.3)
Update GF for Lottery Forecast	(7.5)	(21.6)	(29.1)
<u>Transfer \$250M in Unclaimed Property to Lit. Fund:</u>			
Re-calculate VRS	0.0	(10.4)	(10.4)
Offset GF	(25.0)	0.0	(25.0)
Allocate \$50 Million to School Construction Loans	NGF	NGF	NGF
Allocate \$25M to Interest Rate Subsidy Grants	NGF	NGF	NGF
New School Breakfast After the Bell Initiative	0.0	0.5	0.5
Backfill Drivers' Ed. Rev. from Decreased DMV Fees	1.3	1.4	2.7

Department of Education

Introduced Budget Increases	FY 2015	FY 2016
Principal training for under-performing schools	\$0	\$713,000
Expedited SOL retakes in grades 3 thru 8	0	200,000
Computer Adaptive Testing – grade 7 and 8 math	0	732,000
Five positions to support academically struggling divisions	0	572,976
Central Account Reductions	FY 2015	FY 2016
Apply FY 2014 pledged balance	(1,200,000)	0
Eliminate digital content contract	0	(500,000)
Eliminate Center for Excellence in Teaching (GMU)	0	(220,191)
Education Commission of the States Dues	0	(91,800)
Other	0	(373,834)



Other Education Agencies

- ***Jamestown-Yorktown.*** In Central Appropriations Reversion, reductions of five percent and seven percent, respectively, and results in 1.0 layoff.
 - Proposes adding \$369,776 GF the second year for operational expenses associated with the new Yorktown Museum and Exhibit Center.
- ***Library of Virginia.*** In Central Appropriations Reversion, reductions of 2.4 percent and three percent, respectively, after exempting aid to public libraries which was not reduced, and results in 6.0 layoffs.
- ***Science Museum of Virginia.*** In Central Appropriations Reversion, reductions of five percent and seven percent, respectively, and results in 3.0 layoffs.
- ***Virginia Museum of Fine Arts, Commission for the Arts, Frontier Culture Museum, and Gunston Hall.*** In Central Appropriations Reversion, reductions of five percent and seven percent, respectively.



Independent Agencies

- **Virginia Retirement System.** No amendments.
- **State Lottery.** Adds \$11.3 million NGF each year to fund increases in vendor costs, self-service vending equipment, replacement of the phone system, advertising contracts, personnel services, and to transition the purchase of existing ticket inventory from its current vendor.
- **State Corporation Commission.** Proposes language specifying that by June 30 of each year the Director of DPB must authorize the reversion to the General Fund of \$1.2 million each year representing the reimbursement from federal funds received by the SCC for plan management activities performed as part of the Federal Health Benefit Exchange.
- **Workers Compensation Commission.** Adds \$835,000 NGF both years to adjust the Uninsured Employer's Fund based on current year spending and pending claims; \$601,346 NGF each year for the new retirement contribution and health insurance rates; and \$100,000 NGF the first year and \$88,500 NGF the second year to expand the office space for Alternative Dispute Resolution Services.
- **College Savings Plan.** Removes appropriation of \$258.0 million the first year and \$335.0 million the second year for tuition payments for the inVEST savings program, for which payments and revenue no longer go through the state treasury.



Higher Education



Overview of Higher Education

- Governor's proposed amendments for the 2014-2016 biennium include **increases of about \$10.1 million GF** as compared to Chapter 3.
 - Proposes **\$3.5 million GF** in FY 2016 for additional need-based undergraduate financial aid.
 - Recommends **\$2.3 million GF** in FY 2016 for base adequacy.
 - Proposes **\$4.2 million GF** in the second year for funding for the Jefferson Lab to compete for a \$618 million electron ion collider project with the United States Department of Energy (USDOE).
 - **No additional reductions were recommended.** However, the reductions of \$45.0 million GF per year for the higher education institutions have been distributed by agency. The other higher education-related agencies received reductions in Chapter 3 of five percent in FY 2015 and seven percent in FY 2016 (except for the extensions and VIMS).



Overview of Higher Education (continued)

- For the proposed additional funding of \$3.5 million GF in FY 2016 for undergraduate need-based financial aid:
 - The allocations bring four-year institutions up to 30 percent under the partnership model (University of Mary Washington and George Mason University).
 - Under the proposed actions, all four-year institutions and Richard Bland College would receive \$100,000 GF and the Virginia Community College System (VCCS) would receive \$200,000 GF.
 - In addition, it is recommended that the VCCS receive \$1.0 million GF for need-based aid for individuals seeking selected industry-based certifications.
- For the recommended additional \$2.3 million GF in FY 2016 for base adequacy:
 - Institutions under 99 percent of the funding guideline would be eligible for a 0.5 percent increase.
 - Includes Old Dominion University (ODU), Norfolk State University (NSU), Virginia State University (VSU), and the University of Virginia-Wise (UVA-Wise).
 - NSU and VSU are permitted to use the amounts for financial aid.



Other Actions

- Recommends an additional allocation of \$10.0 million GF in the second year under the Higher Education Equipment Trust Fund (HEETF). (Note: The FY 2015 HEETF allocation has been delayed.)
- Proposes eliminating the language restricting tuition increases to cover the higher education reductions as contained in Chapter 3.
- Other proposed language changes include allowing carry-over balances in the Tuition Assistance Grant (TAG) program and permitting need-based financial aid to be used for selected industry-based certifications.



Capital Outlay



Capital Outlay Funding

SB 800 Proposed Amendments by Fund Type (\$ in millions)	
General Fund Cash	\$0.0
VPBA/VCBA Tax-Supported Bonds	83.7
9(c) Revenue Bonds	67.5
9 (d) Revenue Bonds	55.5
Nongeneral Fund Cash	<u>70.7</u>
Total	\$277.5



Capital Outlay Details

- Proposes \$83.7 million in VPBA/VCBA bonds in the second year for:
 - an additional \$5.0 million for maintenance reserve;
 - \$50.7 million for equipment for 14 projects nearing completion; and
 - \$28.0 million for the purchase of election equipment for localities to be administered by the Board of Elections.
- Recommends \$193.7 million in nongeneral fund capital amendments.
 - \$123.0 million is funded through 9 (c) and 9 (d) NGF revenue bonds for nine higher education projects and
 - \$70.7 million is funded with nongeneral fund cash to support another 16 projects at multiple state agencies and higher education institutions.



Health and Human Resources



Summary of Health and Human Resources

- Governor's proposed amendments in HHR include a net decrease of \$193.5 million GF and a net decrease of \$320 million nongeneral fund for the 2014-16 biennium as compared to Chapter 3.
- Proposed GF spending of \$85.6 million is offset by \$279.1 million in reductions over the biennium.
 - The Governor's "A Healthy Virginia" initiative is embedded within the Medicaid Forecast and includes \$119.3 million in additional GF spending.
- Excluding mandatory spending and technical adjustments, discretionary spending in HHR totals \$25.2 million GF or 29.4 percent of new spending in HHR.
- Budget Savings total \$57.5 million GF over the biennium.



Summary of Major GF Changes

Major GF Increases (\$ in millions)	Biennium
Mandatory Spending	\$59.2
Discretionary Spending	25.2
Technical	1.2
Total GF Increases	\$85.6
Major GF Decreases (\$ in millions)	
Medicaid and Children's Health Insurance Program Forecasts Savings	(\$216.3)
Health Care Fund (Cash Balance)	(51.4)
Other Budget Savings	(9.2)
Technical	(2.2)
Total GF Decreases	(\$279.1)



Forecast Savings

- The introduced budget includes GF savings of \$267.7 million based on the latest expenditure forecasts for Medicaid and the Children's Health Insurance Programs, and a net \$51.4 million from the FY 2014 cash balance in the Health Care Fund.
- Medicaid expenditures are lower due to slower growth in FY 2014, lower FY 2015 managed care rate increases, lower than expected woodwork enrollment from the federal exchange, higher savings from behavioral health reforms.
 - Enrollment growth in FY 2014 was 1.3 percent.
- FAMIS has also experienced lower than expected managed care rate increases for FY 2015 and reflects a delay in restoring the FAMIS MOMS program.
 - Enrollment growth in FY 2014 was 0.9 percent.



“A Healthy Virginia” Spending

- Medicaid Forecast Savings includes offsetting costs of \$119.3 million GF for the Governor’s “A Healthy Virginia” initiatives.
 - Excluding “A Healthy Virginia” results in a Medicaid Forecast savings of \$313.7 million general fund compared to \$194.4 million.

Summary of Governor’s “A Healthy Virginia” Initiatives (\$ in millions)	
Governor’s Access Plan (GAP) for the Seriously Mentally Ill	\$91.8
Increased Children’s Outreach (Medicaid)	17.0
Dental Coverage for Pregnant Women	1.9
Behavioral Health Homes	8.6
Total Biennial GF Impact for Medicaid	\$119.3
Increased Children’s Outreach (Children’s Health Insurance Programs)	1.6
Coverage of State Employees Children in FAMIS	2.4
Total Biennial GF Impact for “A Healthy Virginia”	\$123.3



Major Proposals

- Medicaid Expansion
 - Proposes to expand Medicaid in accordance with the Affordable Care Act to non-elderly adults up to 138 percent of the federal poverty level.
 - **The Governor's budget does not incorporate any GF savings from expansion in the budget.**
 - Any savings would be set aside in a special fund for future Medicaid costs or deposited to the Revenue Stabilization Fund.
 - Projected GF savings, based on a January 1, 2016 implementation date is \$105 million GF in FY 2016.



Major Proposals (continued)

- Hospital Provider Assessment
 - Authorizes a new assessment on hospitals of up to six percent of revenue.
 - Increases hospital reimbursement through Medicaid using assessment revenue as state match, therefore there are no additional state costs.
 - Deposits at least 35 percent of the revenue to the Health Care Fund, offsetting GF support for Medicaid.
 - There has been some discussion in using a hospital assessment to improve state support of private teaching hospitals.



Mandatory Spending in HHR

Spending Item	Biennium (\$ in millions)
Health Care Fund Revenue Update	\$24.9
Address Lost Revenue at Piedmont Geriatric and Catawba Hospitals	12.9
Increase Medicaid Funding for State Training Centers	5.7
Medical Costs of Involuntary Mental Commitments	4.6
Offset Decrease in Child Support Enforcement Revenue	4.2
Replace Lost Medicare Incentive Payments	3.8
Special Hospitalization Costs at State Facilities	1.9
All Other	1.3
Total Mandatory Spending in HHR	\$59.2



Mandatory Spending in HHR (continued)

- Health Care Fund Revenue Update
 - \$24.9 million GF is added to support Medicaid to offset less revenue expected from tobacco taxes and pharmacy rebates.
- Address Lost Revenue at Piedmont and Catawba Hospitals
 - \$12.9 million GF is proposed to offset Medicare and Medicaid revenues as the hospitals are converted to nursing home type facilities for reimbursement to comply with federal requirements.
- Increase Medicaid Funding for State Training Centers
 - \$5.7 million GF is added to reflect the latest discharge schedule and the delay in the closure of Northern Virginia Training Center.
- Medical Costs of Involuntary Mental Commitments
 - \$4.6 million GF is added to fund the forecast, which has increased due to recent mental health reforms related to temporary detention orders.



Mandatory Spending in HHR (continued)

- Offset Decrease in Child Support Enforcement Revenue
 - \$4.2 million GF to offset declining TANF caseload and resulting child support collections.
- Replace Lost Medicare Incentive Payments
 - \$3.8 million GF to replace lost revenue due to the Medicare decertification of medical / surgical units at state hospitals.
- Special Hospitalization Costs at State Facilities
 - \$1.9 million GF for increasing costs of providing outside medical care to facility residents.
- All Other Mandatory Spending:
 - \$456,470 GF to fully fund Medicaid disability determinations.
 - \$450,000 GF to secure tax data at the Department of Social Services.
 - \$315,943 GF to fund the forecast for children's health insurance.
 - \$49,000 GF for the DOJ independent reviewer.



Discretionary Spending in HHR

Spending Item	Biennium (\$ in millions)
Foster Care and Adoption Payments to age 21	\$5.7
Centralized Medicaid Eligibility Contract	4.3
Eligibility Staff for Local Departments of Social Services	4.0
Staff to Implement Increased Child Care Regulation	2.7
Local Inpatient Bed Purchases	2.2
Training Center Funding to Reflect Updated Discharges	1.3
Redesign of Medicaid Day Support Waiver	1.2
All Other	3.8
Total Discretionary Spending in HHR	\$25.2



Discretionary Spending in HHR (continued)

- Foster Care and Adoption Payments to age 21
 - \$5.7 million GF is added to reflect revised assumptions for the initiative to expand foster care and adoption subsidies to youth up to age 21.
- Centralized Medicaid Eligibility Contract
 - \$4.3 million GF is proposed for on-going contract costs for centralized eligibility processing of certain Medicaid applications.
- Eligibility Staff for Local Departments of Social Services
 - \$4.0 million GF is proposed to increase support for local eligibility processing of benefit programs as a result of application workloads.
- Staff to Implement Increased Child Care Regulation
 - \$2.7 million GF to fund proposed legislation that will require licensure for all child care providers that serve children receiving public subsidies.



Discretionary Spending in HHR (continued)

- Local Inpatient Bed Purchases
 - \$2.2 million GF to address the increasing costs of local hospital bed purchases due to recent mental health reforms.
- Training Center Funding to Reflect Updated Discharges
 - \$1.3 million GF is proposed to reflect the updated discharge schedule for the Training Centers.
- Redesign of Medicaid Day Support Waiver
 - \$1.2 million GF is proposed to modify the Day Support Waiver into a more robust Independent Living Waiver and add 200 slots.



Other Budget Issues

- The Medicaid Forecast includes \$14.4 million GF related to compliance with the new U.S. Department of Labor rule eliminating the exemption from overtime requirements of the Fair Labor Standards Act for home care workers.
 - Personal care attendants in the Medicaid waivers will have to be paid overtime pursuant to this new rule.
 - In another proposed amendment, the Governor limits the hours worked each week to 56 hours per worker, generating a small savings of \$325,702.
 - The Governor's budget also limits an attendant to being employed by only one employer of record.



Summary of HHR Budget Savings

HHR Savings (\$ in millions)	GF Savings
FY 2014 GF Balances	(\$3.6)
Transfer of Nongeneral Fund Cash Balances	(12.9)
GF Revenue (New Licensing Fee)	(1.2)
Supplant GF with Nongeneral Fund	(10.8)
GF Budget Reductions	(29.0)
Total Savings	(\$57.5)

- Savings in HHR are generated by agency reversions of unspent FY 2014 GF balances, transferring excess nongeneral fund cash, additional GF revenue from a licensing fee, supplanting GF with nongeneral fund resources and \$29 million in GF budget reductions.



HHR Budget Savings

- Reductions of \$29 million GF in HHR are composed of:
 - \$21 million in Operational and Administrative Efficiencies,
 - \$2.7 million in Reduced Staffing, and
 - \$5.3 million in Program Reductions.

Program Reduction Highlights	FY 2015	FY 2016
Support for Locally-Operated Health Departments (VDH)	0	(886,919)
Employment Services Supports Programs (DARS)	(302,666)	(364,943)
Personal Assistance Services Program (DARS)	(300,000)	(300,000)
Centers for Independent Living (DARS)	(230,250)	(580,800)
Brain Injury Programs (DARS)	(426,997)	0
Funding for Didlake (DARS)	(200,000)	(200,000)
Funding for Northern Virginia Family Services (DSS)	(200,000)	(200,000)
Funding for Youth for Tomorrow (DSS)	(100,000)	(100,000)
Funding for Pharmacy Connect	0	(215,500)
Funding for the Virginia Center for Health Innovation (DMAS)	(100,000)	0
Interpreter services (VDDHH)	(14,373)	0
Total	(\$1,874,286)	(\$2,848,162)



Proposed Fees in HHR

Fee	FY 2015 Revenue	FY 2016 Revenue
Child protective services registry fee - \$7 to \$10 (DSS)	\$0	\$225,000
National background check fee - \$50 to \$60 (DSS)	\$0	\$82,000
New license fee for community-based behavioral health and developmental services providers - \$750 initial, \$500 annual (DBHDS)	\$352,022	\$947,000
Background check fee - \$13 to \$23 (DBHDS)	\$92,056	\$138,024
New fee for use of Knowledge Center by CSBs and private providers (DBHDS)	\$58,500	\$117,000
Fee increase for copies of pathology reports (VDH)	\$0	\$200,000
Restaurant inspection fee - \$40 to \$285 (VDH)	\$0	\$6,878,620
Total	\$502,578	\$8,587,644



Public Safety and Homeland Security



Key Changes from Chapter 3

- Increases ABC revenues and allocates increased profits to IT improvements.
- Provides \$31.4 million GF for DOC inmate medical care.
- Closes the main correctional facility at Powhatan along with the White Post Diversion Center and Cold Springs Work Center, delays opening of Culpeper, and cuts all equipment funding (except vehicles) for facilities the first year.
 - Over 500 positions eliminated; layoffs to date total about 120.
 - Increases vacancies system-wide to save an additional \$5.4 million GF.
- Department of Juvenile Justice: eliminates 37 positions in central office.
- State Police: includes \$4.5 million GF in unspecified cuts first year.
- Forensic Science: eliminates or delays filling positions (-\$2.6 million).



ABC Revenues

- ABC Board took steps in November to increase revenues by \$5.4 million the first year and \$9.5 million the second year, by:
 - Raising case handling fee from \$1 to \$2 per case;
 - Increasing markup on 50 ml “miniature” bottles from 49 to 69 percent; and,
 - “Rounding up” prices of merchandise on the shelf.
- Of the total increase, \$2.9 million the first year and \$7.5 million the second year is proposed to be allocated to improve agency operations.
 - ABC has developed a plan to spend \$38.4 million over three years (Phase 1), plus an additional \$21.8 million (Phase 2) to replace and upgrade outdated information technology systems and improve marketing strategies.
 - On a cash basis, ABC proposes to spend \$2.3 million this year and \$27.7 million in FY 2016.
 - On the accrual basis, as required in its financial reports, ABC proposes to amortize these expenditures over five years, which means profits are adjusted accordingly.



ABC IT Expenditures

- ABC has proposed to spend \$30.0 million in the current biennium to upgrade information technology and marketing.

Proposed Expenditures (\$30.0 million)	FY 2015	FY 2016
Retail & Marketing Strategies (10 FTE)	\$ 0.5	\$1.9
Website Capabilities (e-commerce)	\$ 0.3	\$0.8
Integrated Financial System (2 FTE)	\$ 1.1	\$13.0
Inventory Control System (2 FTE)	--	\$4.9
Inventory Forecasting & Receiving Systems	--	\$2.8
Tax Collection System	--	\$2.0
Licensing Management System	--	\$1.7
Broadband Technology – Retail Stores	\$ 0.4	\$0.2
Electrical Circuitry – HQ bldg. & warehouse	--	\$0.5



ABC Net Profits

- Total operating revenues (sales) are projected to increase 7.2 percent over two years (from FY 2014 to 2016). The transfer of net profits to the general fund (in Part 3) is projected to increase 10.3 percent.

\$ Millions (NGF)	FY 2014 (actual)	FY 2015 (est.)	FY 2016 (est.)
Total Operating Revenues	\$800.5	\$837.0	\$857.9
Profits (before IT projects)	\$140.0	\$149.0	\$154.5
P&L Impact of IT projects	--	\$2.7	\$8.6
Profit Transfer (Overage/Shortage)	<u>--</u>	<u>\$1.5</u>	<u>(\$2.3)</u>
Net Profits (Part 3 Transfer to GF)	\$140.0	\$144.8	\$148.2
Profit Transfer Cumulative Balance	\$7.1	\$8.6	\$6.3



Department of Corrections

- Central Account Reversions (elimination of 653 positions; layoffs)
 - **Close Powhatan Correctional Center.** Net savings: \$16.0 million GF.
 - Results in closure of 809 beds, which are to be replaced by expanding capacity at other facilities by a total of 817 beds.
 - **Close White Post Diversion Center (near Winchester) and Cold Springs Work Center (near Staunton).** -\$2.5 million GF
 - **Delay Opening of Culpeper.** -\$13.3 million GF
 - **Eliminate Equipment Funding.** -\$4.1 million GF (first year only)
 - **Increase Turnover and Vacancy, Defer Filling 29 Security and Probation Positions, and Downsize Central and Regional Offices.** -\$9.2 million GF
- General Fund Revenues and Transfers
 - **Sell Abandoned Properties.** Assumes \$20.0 million GF revenue from Pulaski, Botetourt, and White Post properties).
 - **Out-of-State Inmate Revenues.** Transfers \$6.9 million NGF to general fund that was set aside for an electronic medical records system for inmates.



Inmate Medical Care

- In 2012 DOC re-bid its contract for on-site medical care for those facilities where medical care is not provided by state employees.
 - The firm which won the contract (Corizon) underestimated the cost of the required services, leading to a termination of the contract in 2014.
 - DOC has awarded an interim contract to the previous contractor (Armor), and intends to have a permanent contract in place later this year.
 - The interim contract and the RFP both provide for DOC to assume the cost of inpatient hospitalization of inmates. Under the old contract, that risk was assumed by the contractor.
- The introduced budget includes \$11.0 million GF in FY 2015 and \$20.4 million for FY 2016 for increased medical costs.
 - FY 2016 amount calculated based on projected cost of DOC providing medical services using its own personnel in all facilities.
 - Language: Allows DOC to sign for inmates on Medicaid applications.



Department of Forensic Science

- Personnel Reductions. Saves \$2.6 million GF by eliminating or delaying the filling of positions in several areas, including:
 - Photography (-2 FTE)
 - Toxicology
 - Forensic Biology
 - Trace Evidence (-3 FTE)
 - Latent Prints
 - Digital and Multimedia Evidence Services (-2 FTE)
 - Controlled Substances and Analysis of Marijuana
- Adds \$0.4 million to review archived case files from 1973 – 1995 in order to reconsider any cases that might involve wrongful incarceration, and to support advanced re-testing of old post-conviction DNA cases that had “inconclusive” results.



State Police

- **Nongeneral Fund Balances.** Transfers \$5.2 million to the general fund the first year.
- **State Trooper Vacancies.** Saves \$3.4 million GF by maintaining 41 vacancies the first year and 11 the second year.
 - Currently 2,013 FTE sworn positions.
 - With 11 vacancies, the vacancy rate would be about one-half of one percent.
- **Other Reductions:** Saves \$4.5 million GF the first year through other, unspecified reductions.
 - This will have an undetermined impact on overtime and vacancies.
 - Assuming an average of about \$72,000 per filled position (salary, benefits, and other direct operating costs), and assuming no change in overtime, the vacancy rate would have to rise by about 62 positions (from 11 to 73), or 3.6 percent.



Other Reductions

- Emergency Management
 - Delays filling positions: -\$0.1 million GF
- Fire Programs
 - Reduces support for explosive permits program, life safety and building inspections: -\$0.3 million GF
- Juvenile Justice
 - Downsizes the central office: -\$2.4 million GF (second year, - 37 FTE)
- Military Affairs
 - Reduces National Guard facility maintenance and repair: -\$0.3 million GF
 - Tuition Assistance Fund Balance: transfers \$0.4 million to general fund



Veterans and Defense Affairs



Department of Veterans Services

- Virginia Values Veterans (V3)
 - Creates a new service area (sub-program) and appropriation in the budget.
 - Adds \$474,000 GF and \$100,000 NGF (to account for donations) the second year for the V3 and the Virginia Transition Assistance Program (VTAP).
- Field Offices
 - Adds \$1.8 million GF and eight positions the second year (includes the opening of two new field offices in Christiansburg and Fredericksburg).
- Reduction of Homelessness
 - Adds \$180,000 GF the second year for three local housing specialists for the Wounded Warrior program (NoVa, Southwest, Hampton Roads).
- Veterans Cemeteries
 - Authorizes Treasury loan for additional cremated burial sites at the Suffolk cemetery (subject to federal grant funding).



Judicial Department and Compensation Board



Judicial Department

- Criminal Fund
 - Adds \$13.4 million GF over two years to cover anticipated costs.
- Authorized Judgeships
 - Transfers \$5.7 million GF the first year and \$10.1 million GF the second year from Central Accounts to fill vacant judgeships.
- Judicial Agency Balances
 - Reverts balances estimated at \$700,000 on or before June 15, 2015.



Compensation Board

- Deputy Sheriffs' Salaries
 - Adds \$1.6 million GF the second year to increase the entry-level salary for Grade 7 deputies from \$29,081 to \$31,009. Also increases the Grade 8 deputy salary to avoid compression.
 - Ties the entry-level salary to the maximum gross income level for a family of four for food stamps, and mandates future local contributions to meet that level.
- Jail Per Diems
 - Adds \$11.3 million GF the first year to fund the projected cost of per diems for state- and local-responsible prisoners in regional and local jails.
 - Funding to cover the projected second year increase is not included.
- Other Amendments
 - Central Virginia Regional Jail expansion project (funds 11 positions).
 - Sheriffs Career Development Program (shifts certification from UVA to VCU).



Commerce and Trade



Commerce and Trade

- The proposed amendments for the Commerce & Trade Secretariat contain several actions that **increase** appropriations to the area by \$10.3 million GF (6.2 percent) in FY 2015 and \$14.2 million GF (7.9 percent) as compared to Chapter 3, including:
 - Doubling the size of the Governor’s Development Opportunity Fund.
 - Increasing funding for entrepreneurial and homelessness programs.
 - Providing direct appropriation to the Virginia Coalfield EDA.
- Proposed reduction strategies in the Item 471.10 total \$4.0 million GF in the first year and \$4.8 million GF in the second year largely focus on tourism, marketing and community revitalization initiatives.
- All anticipated economic development incentive payments remain intact.



Economic Development Incentive Payments (EDIP)

- **The introduced budget provides a net of \$62.1 million GF in FY 2015 and \$79.1 million GF in FY 2016.**
 - \$19.9 million GF in the first year and \$20.7 million GF in the second year for the Governor’s Opportunity Fund.
 - This is in addition to \$7.75 million reduction in balances to reflect a transfer of second year balances that occurred in November 2014.
 - \$2.8 million GF each year for the Commonwealth Research Commercialization Fund.
 - \$2.4 million GF in each year for the Motion Picture Opportunity Fund.

Performance Grant (\$ in millions)	FY 2015	FY 2016	Total
Major Eligible Employer	\$6.8	\$6.8	\$13.6
Semiconductor Manufacturing	5.4	3.8	9.2
VA Investment Partnership	3.9	3.6	7.5
Aerospace Engine Facility Incentive	0.6	13.8	14.4
Advanced Shipbuilding Training Facility	8.0	7.6	15.6
VA Economic Development Incentive Grant	4.5	5.9	10.4
VA Jobs Investment Program	5.7	5.7	11.4



Additional Economic Development Incentives

- Proposes \$0.5 million GF in the second year for the creation of a Virginia Tourism Growth Incentive Fund.
 - Legislation is required to establish the fund.
- Includes \$1.5 million GF each year for performance-based payments from the Biofuels Production Fund.
- Includes \$1.0 million GF in the second year for an international athletic competition in Fairfax County.



Department of Housing and Community Development (DHCD)

- Proposes \$1.0 million GF in the second year for expansion of the Community Business Launch Program intended to promote entrepreneurship and small business development.
 - Also proposes \$1.0 million GF in the second year for homeless rapid re-housing programs.
- Reduces by \$172.3 million NGF each year funding to administer the federal funded Section 8 Housing Assistant Payments Contract under agreement with the U. S. Department of Housing and Urban Development.
 - Originally included in 2014, however the contract has been postponed.
- Reduces funding for the Enterprise Zone Program by \$250,000 GF in the first year and \$400,000 GF the second year.
- Savings of \$750,000 GF in the first year from reducing funding for water and wastewater projects in Southwest Virginia.



Other Proposed New Spending

- Proposes to provide direct funding of \$1.2 million GF in the second year to support operations of the Coalfield Economic Development Authority.
 - Contingent upon the passage of legislation to limit the claims against the Coalfield Employment Enhancement Tax Credit.
- Proposes to increase funding for the Fort Monroe Authority by \$0.3 million GF in each year for payments in lieu of taxes to the City of Hampton.
 - Brings the total amount to \$1.3 million annually.
 - Similar request was rejected by the General Assembly in FY 2014.
- Proposes \$0.4 million GF in the second year to market tourism between the Commonwealth and China.
 - This is the first year of a three-year action to fulfill a contractual agreement with Air China.



Proposed Savings Actions

- Proposed savings strategies for the Commerce & Trade Secretariat total \$4.0 million GF in the first year and \$4.8 million GF in the second year.
 - Included in these amounts are reductions to programs providing international marketing, infrastructure improvement in southwest Virginia, tourism marketing and the Virginia Sports Hall of Fame.

Agency	FY 2015	FY 2016
Housing and Community Development	\$1.4	\$0.8
Labor and Industry	0.1	<0.1
Mines, Minerals & Energy	0.3	0.4
Small Business & Supplier Diversity	0.0	0.3
Ft. Monroe Authority	0.3	0.3
Virginia Economic Development Partnership	0.9	1.3
Virginia Tourism Authority	1.0	1.7
TOTAL	\$4.0	\$4.8



Agriculture and Forestry



Overview of Agriculture and Forestry

- Proposed actions in Agriculture and Forestry reduce program spending by \$0.7 million (1.4 percent) in the first year and \$3.4 million (6.2 percent) in the second year when compared to Chapter 3.
- Within VDACS, the proposed amendments enhance the Weights and Measures Inspection program and the Non-Restaurant Food Establishment inspection programs with new fees.
 - \$10 per device annual weights and measures registration fee - \$0.5 million
 - Variable food establishment fee ranging from \$40 to \$375 - \$0.4 million
- Other Agriculture and Forestry reduction strategies include:
 - Reduce Purchase of Development Rights program by \$250,000 GF;
 - Eliminate State Fair funding support for 4H and Future Farmers of America;
 - Sale of two Farmers' Markets;
 - Eliminate state support of Coyote Control;
 - Defer Emergency Response Equipment, and
 - Office Closure and Personnel Savings.



Natural Resources



Overview of Natural Resources

- Proposed amendments to the Natural Resources agencies include some incremental new GF spending primarily in the Department of Conservation and Recreation, offset by reductions of \$1.2 million GF in the first year and \$2.7 million GF in the second year.
 - Fee increases for State Parks and Saltwater Fishing Licenses are also proposed.
 - Proposed actions also sweep NGF balances across several environmental protection programs.



Water Quality Improvement

- Includes \$8.2 million the second year from the Water Quality Improvement Fund Reserve Fund.
 - There is no statutorily required deposit to the WQIF.
 - This is the corpus of the Reserve.
 - The funding is proposed to be distributed as follows:
 - \$6.7 million for the Natural Resources Commitment Fund for agricultural best management practices;
 - \$0.6 for Soil and Water Conservation Districts technical assistance programs;
 - \$0.7 million for Conservation Reserve Enhancement Program and,
 - \$0.1 million for golf course nutrient management.
- Included in Capital Outlay is \$2.2 million in NGF bonds the second year for the construction of Seven Bends Park.
 - Located in Shenandoah County, would be opened as a day use facility.



Other Natural Resources Actions

- Proposes to retain general fund transfers to the Game Protection Fund of \$2.4 million in each year from sales taxes on hunting and fishing related equipment, and by \$2.2 million each year from increased watercraft sales taxes.
- The amendments also include an additional \$0.7 million in the first year and \$1.1 million in the second year for DCR operating expenses.
 - Proposed savings strategies include an additional \$0.8 million NGF in the second year from increased state park fees.
- Proposes a \$4.0 million line of credit for the Department of Conservation and Recreation to accommodate fluctuation in NGF revenues primarily from federal grants.
- Proposes to capture balances of \$0.7 million in the first year and \$0.6 million the second year from the Saltwater Recreational Fishing License Fund.
 - A fee increase of an unspecified amount would partially offset this amount in the second year.



Other Natural Resources Actions

- Proposes language authorizing the Department of Environmental Quality to establish a Class A Biosolids fee of \$3.75 per dry ton.
 - There is currently a fee on Class B producers of \$7.50 per dry ton.
 - No revenues are assumed.
- Proposed savings for the Department of Environmental Quality are the reversion of balances totaling \$3.6 million in the first year and \$2.7 million in the second year.

Fund	FY 2015	FY 2016
Waste Tire Fund	\$ 0.9	\$ 0.0
Hazardous Waste Management Fund	0.8	0.0
Emission Inspection Program Fund	1.6	0.3
Underground Petroleum Storage Tank Fund	0.0	2.4
Fish Kill Investigation Fund	> 0.1	0.0
Other	0.1	0.0
TOTAL	\$ 3.6	\$ 2.7



Transportation



Overview of Transportation

- The proposed amendments for the Transportation Secretariat contain **no reductions or transfers** for transportation funding beyond Chapter 3 actions.
 - Incremental increases of \$13.2 million NGF in the first year and \$69.1 million NGF the second year are included to reflect TTF forecast growth.
 - There are no actions in SB 800 related to the statutory increase in motor fuels taxes as the revenues are already assumed in the forecast.
- Within DMV, \$1.9 million NGF is proposed for the replacement of leased customer services center space in Williamsburg with an agency-owned facility.
- Within VDOT, revenues are adjusted upward by \$51.5 million NGF to reflect unallocated FY 2015 balances that are expected to be expended in FY 2016.
 - A seven percent reduction in VDOT administration costs is reflected in adjustments to other construction and maintenance accounts.



Port of Virginia

- The proposed amendments for the Virginia Port Authority reflect ongoing consolidation of operations of the VPA and Virginia International Terminals.
 - Proposal is included to increase employment level by 46.0 FTE positions and \$13.5 million NGF.
- Language is included that would modify the existing Virginia International Gateway Terminal Lease language to authorize VPA to extend or renew its operating lease on the marine terminal by 50 years and allow for the conversion of this operating lease to a capital lease.
 - Separate language is proposed to allow the use of previously authorized Commonwealth Port Fund Bond proceeds for Craney Island improvements to be used for the construction or expansion of other port facilities.



General Government



Technology



Overview of Technology

- Proposed amendments for the Technology Secretariat effectively reduce GF support for the two agencies by \$3.0 million (36 percent) in the first year and \$0.7 million (8 percent) in the second year.
- Within the Innovation and Entrepreneurship Investment Authority, first year balances of \$2.0 million GF from the GAP program and \$0.5 million from Modelling and Simulation are proposed to be deployed in support of these programs.
 - Additional language is proposed to improve the transparency of expenditures of the Center for Innovative Technology consistent with similar requirements for the Virginia Economic Development Partnership.
 - Language at the Department of General Services directs a comprehensive assessment of ownership options related to the mid-rise building at the CIT campus.



Other Technology Initiatives

- Within the Virginia Information Technologies Agency, several actions are taken to reduce forecast expenditures or capture program balances, including:
 - Reducing vendor pass-through payments of \$11.9 million NGF in the second year;
 - Capturing savings from personnel reductions of \$4.7 million NGF the first year and \$6.2 million NGF the second year; and
 - Reverting Internal Service Fund balances of \$4.2 million.
- Also proposed are several actions related to improving business functionality at VITA, including:
 - Providing \$0.6 million NGF for contractual support in evaluating the Commonwealth's options at the expiration of the managed services agreement with Northrop Grumman.
 - Changing the methodology for the annual reporting of expenditures on major information technology projects.



Administration



Overview of Administration

- Proposed amendments for the Office of Administration provide additional funding of \$11.3 million GF in the first year and \$3.3 million GF in the second year beyond the amounts provided in Chapter 3.
 - Separate budget reduction strategies included in Item 471.10 reduce this amount by \$1.1 million GF in the first year and \$2.2 million GF in the second year.
 - Additional reduction strategies included in Part III transfer \$19.7 million in program balances to General Fund Resources.
 - The majority of the balance transfers are from the employee health insurance fund and five Internal Service Funds maintained by the Department of General Services.
- In addition, there are several proposed fees or fee increases that would be used in support of Consolidated Labs operations.



Other Initiatives in Administration

- Within the Department of Human Resources Management, language is proposed that would authorize a working capital advance of up to \$20.0 million to prioritize the settlement of workers compensation claims.
 - The Commonwealth has approximately \$1.0 billion in actuarial liability against the workers compensation program.
- Within the Department of Elections, new funding of approximately \$1.7 million GF in the second year, in addition to the authorization of \$28.0 million in VPBA debt, is proposed for a statewide voting modernization initiative, including:
 - \$28.0 million for the replacement of noncompliant voting equipment;
 - \$1.6 million for reimbursements to 11 localities that have recently upgraded (first of three years); and
 - Less than \$0.1 million to address election night reporting on the State Board website.



Proposed Employee Health Insurance Changes

**Summary of Actions Proposed for
FY 2016 State Employee Health Insurance Premiums**
(\$ millions GF)

	<u>FY 2016</u>
Adjust GF/NGF Splits at DBHDS and Colleges	(\$3.7)
Update on Number of Enrollees in Plan	(0.02)
Revised Projections from Actuaries Based on Current Plan	(3.3)
Reflect Cash Balances and Cash Transfers to HIF	(5.1)
Proposed Changes to Employee Health Benefits	
Increase Plan Year Deductible	(0.9)
Adjust Plan Year Out-of-Pocket Maximum	(4.0)
Defer IBNR Add-on	(5.6)
Reduce Co-Pay for Physical Therapy	0.5
Increase Use of Telemedicine	(0.1)
Reform Pharmacy "Drug Compounding" Policy	(0.6)
Require Prior Authorization for Androgen Prescriptions	(\$0.2)
Total	(\$23.0)



Finance



Overview of Finance

- The proposed amendments for the Office of Finance reduce appropriations by \$10.3 million GF in the first year and \$40.1 million GF in the second year as compared to Chapter 3.
 - Reduction strategies in Item 471.10 further reduce appropriations to the Finance agencies by \$2.4 million GF in the first year and \$3.6 million GF in the second year.
 - Additional actions taken in Part III transfer \$1.9 million in program balances to GF resources.
- Proposed spending of \$0.2 million is provided to implement the U.S. Treasury Vendor Offset Program and \$1.0 million in GF revenue is assumed from this program in FY 2016.
 - Additionally, \$1.0 million in GF revenue is assumed from increased enforcement of Sales and Use Tax Dealer Exemptions.



Other Initiatives in Finance

- Proposed language is included that would increase the working capital advance for the Cardinal application by \$15.0 million.
 - Increased from \$60.0 million to \$75.0 million.
- Includes \$0.1 million to establish an appropriation for sales tax distribution to localities with tourism zones.
- Proposes to eliminate direct funding of \$0.2 million GF for the school efficiency review program.
- Includes savings of \$7.2 million GF in the first year and \$17.0 million GF in the second year from assumed debt service savings.

