

Budget Outlook for the 2008-2010 Biennium (General Fund, \$ Millions)

Budget Savings

Public Education

Direct Aid to Public Education

Net Effect of Reduction in Sales Tax Revenue Distribution and Partially Offsetting Increase in Basic Aid. One and one-eighth cents of sales tax revenue is distributed to localities based on their proportion of the school aged population. (Another one-eighth cent supports a portion of the costs of the 2004 SOQ revisions.) Prior to determining the state-local split, this one and one-eighth cents of sales tax revenue is applied towards the total cost of Basic Aid, leaving the balance to be split between the state and localities. Thus, when anticipated sales tax revenues decline, 1) localities see a reduced distribution from sales tax revenue, but 2) this decrease is partially “offset” by a required increase in Basic Aid funding from the state. Based on revised sales tax growth rates of 1.8 percent for FY 2009 and 1.0 percent for 2010, there would be roughly a \$160.9 million reduction in the one and one-eighth cents portion of sales tax revenue, partially offset by an increase in Basic Aid costs of \$88.5 million, for a net reduction in Direct Aid to localities of \$72.4 million over the biennium:

2008-09	(\$26.2 million)
2009-10	<u>(46.2 million)</u>
2008-10 Biennium	(\$72.4 million)

ADM Enrollment. Actual September 30, 2008 Fall Membership (FY 2009) shows a 0.2 percent increase above September 30, 2007 (FY 2008). The growth rate projected in the 2008 Session for FY 2009 and 2010 was about 0.6 percent. The revised forecast could result in a decrease in projected enrollment (from the 2008 budget) of about 5,000 students. State savings in FY 2009 could total between \$20 and \$25 million. Savings in FY 2010 are expected to be influenced by increased enrollment in some localities affected by BRAC at nearby military bases, meaning the savings in FY 2010 could be significantly less than FY 2009. The Department of Education will submit more precise estimates at a later date for inclusion in the Governor’s introduced budget.

2008-09	(\$20.0 million)
2009-10	<u>(0.0 million)</u>
2008-10 Biennium	(\$20.0 million)

Non-Discretionary Spending Increases and Historical Funding Commitments

Public Education

Direct Aid to Public Education

Triennial Census of School-Age Population. The 2008 school census data, which affects the allocation of the sales tax revenue, will be applied to FY 2010 (FY 2009 uses the 2005 census count). There is an increase of 26,929 children above the 2005 census count. The cost of this increase is \$4.9 million GF:

2008-09	\$0.0 million
2009-10	<u>4.9 million</u>
2008-10 Biennium	\$4.9 million

Special Education Child Count Correction. The Department of Education learned that the special education counts submitted by some school divisions (Cumberland, Hanover Highland, Lee, Spotsylvania, and Surry Counties, the Town of Buena Vista and the City of Danville) contained errors during the 2008 General Assembly Session. The correction was funded by the General Assembly for FY 2009 at \$6.7 million GF. Funding was not provided for FY 2010. The cost to fully fund the special education child count for FY 2010 is \$6.8 million GF:

2008-09	\$0.0 million
2009-10	<u>6.8 million</u>
2008-10 Biennium	\$6.8 million

Higher Education

System-Wide Requirements

New Facilities Coming On-Line. During the 2008-10 biennium, the State Council for Higher Education in Virginia (SCHEV) anticipates that 82 new Educational & General (E&G) facilities will come on-line at Virginia's public institutions. The general fund share of the operation and maintenance costs for those facilities is estimated at \$6.7 million for FY 2009 and \$16.6 million for FY 10. Operation and maintenance funding was not previously provided for FY 2009.

2008-09	\$6.7 million
2009-10	<u>16.6 million</u>
2008-10 Biennium	\$23.3 million

Base Adequacy. Using legislative funding guidelines (often referred to as "base adequacy" guidelines) SCHEV estimates that the E&G programs at Virginia's public colleges and universities are funded at 91 percent or \$350.2 million (from all funds) below full funding of the guidelines. The cost to bring all institutions to 100 percent of the funding levels recommended by the guidelines is estimated to be \$181.8 million GF.

2008-09	\$0.0 million
2009-10	<u>181.8 million</u>
2008-10 Biennium	\$181.8 million

Student Financial Aid. The 2008-10 Appropriation Act provided an additional \$18.2 million for need-based, in-state, undergraduate student financial aid. The incremental funding to maintain the FY 2009 percent of need met is estimated to be \$13.8 million GF for FY 2010.

2008-09	\$0.0 million
2009-10	<u>13.8 million</u>
2008-10 Biennium	\$13.8 million

Restructuring Revenue Adjustments

Interest Earnings on Tuition. The Higher Education Restructuring Act allows institutions of higher education with Level 1 authority to retain interest

earnings on tuition revenue if they meet the established performance criteria. SCHEV certification occurs annually. It is estimated that the cost of the transfer of the interest earnings to the institutions will be \$15.1 million for FY 2010 (the same amount has already been appropriated for FY 2009).

2008-09	\$0.0 million
2009-10	<u>15.1 million</u>
2008-10 Biennium	\$15.1 million

Rebate on State Credit Card Purchases. The Higher Education Restructuring Act allowed institutions of higher education with Level 1 authority to receive a rebate on state credit card purchases if they meet the established performance criteria. SCHEV certification will occur annually. It is estimated that the cost of the transfer of the credit card rebate to the institutions will be \$1.6 million for FY 2010 (this amount has already been appropriated for FY 2009).

2008-09	\$0.0 million
2009-10	<u>1.6 million</u>
2008-10 Biennium	\$1.6 million

Health and Human Resources

Department of Medical Assistance Services

Medicaid Utilization and Inflation. The Medicaid forecast projects higher spending than originally anticipated when Chapter 879 was adopted. Almost half of the increase is related to projected enrollment increases, especially among low-income children and families. Enrollment in Medicaid is counter-cyclical, meaning caseloads tend to rise as economic growth slows. In addition, unanticipated enrollment growth and other spending obligations from fiscal year 2008 required \$37 million in payment to be shifted from FY 2008 to FY 2009; these deferred payments are made up in the forecast. Also, the Medicaid budget assumed managed care payments would require a 7 percent increase, when in fact, the Department's actuary indicates the rates need to increase by 10 percent. Finally, the 2008 General Assembly reduced Medicaid appropriations by \$19.0 million for the biennium in response to an analysis by the House that suggested Medicaid spending was slowing; in fact, the reverse has occurred.

2008-09	\$ 133.8 million
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2009-10	<u>192.3 million</u>
2008-10 Biennium	\$ 325.1 million

S-CHIP Utilization and Inflation. In recent years, the General Assembly significantly expanded health insurance coverage for children, taking advantage of enhanced match rates (e.g., 66 percent federal share) under the Medicaid S-CHIP program, rather than the traditional Medicaid match of 50 percent. Annual increases are approaching 20 percent due to higher enrollment and projected growth in payments to managed care companies. The current increases are slightly higher than anticipated at the end of the 2008 session, largely resulting from the current economic downturn. As a result, \$1.8 million from the general fund is necessary to support projected growth. As an entitlement under the Medicaid program, enrollment growth must be fully funded under current law.

2008-09	\$ 0.2 million
2009-10	<u>1.6 million</u>
2008-10 Biennium	\$ 1.8 million

Updated Forecast of FAMIS Utilization and Inflation. After showing signs of moderating last year, caseload growth in the FAMIS program is expected to rise significantly in the months to come. The changes are primarily related to enrollment growth, but also a significant increase in the rates paid to managed care companies. The Department's actuaries indicate that a rate increase of 25 percent is warranted based on current analyses. Low-income families are particularly sensitive to changes in economic conditions, resulting in higher caseloads as the current economic situation worsens. The FAMIS program will require an increase of \$9.2 million in state funds over the biennium to maintain services for anticipated enrollees. The Family Access to Medical Income Security (or FAMIS) program provides coverage up to 200 percent of poverty for children and pregnant women (as of July 1, 2009).

2008-09	\$ 1.9 million
2009-10	<u>7.5 million</u>
2008-10 Biennium	\$ 9.4 million

Involuntary Mental Commitment Fund. Payments to hospitals for medical services provided to individuals who are involuntarily committed have varied considerably in recent years. Based on recent analysis, more funding will be required for the DMAS portion of the Fund.

2008-09	\$ 1.1 million
2009-10	<u>0.7 million</u>
2008-10 Biennium	\$ 1.8 million

Department of Social Services

Adoption Subsidy Payments. Subsidy payments made to families who have adopted foster care children continue to rise, even after offset by savings from the federal Title IV-E foster care program. As the Department emphasizes placement in community-based foster homes, savings have materialized as more children are served in the community as opposed to more expensive residential placements. A portion of these savings are used to provide subsidy payments to adoptive parents as foster care children are placed with families.

2008-09	\$ 1.2 million
2009-10	<u>2.5 million</u>
2008-10 Biennium	\$ 3.7 million

Public Safety

Department of Corrections

Medical Costs. The cost of providing medical care for inmates exceeds \$140 million per year, or 14 percent of the general fund operating budget of \$1.0 billion. DOC contracts out for about half of its medical expenses. The additional funds required to provide current services are shown below:

2008-09	\$3.0 million
2009-10	<u>7.0 million</u>
2008-10 Biennium	\$10.0 million

St. Brides Phase II. The second phase of the replacement facility for St. Brides Correctional Center in the City of Chesapeake was completed during FY 2008. No funds are currently available to open this 800-bed dormitory facility. These new beds are needed to prevent the growth of the “out-of-compliance backlog” of state-responsible inmates in local and regional jails to unmanageable levels before the end of the biennium. The backlog is projected to increase from

the current level of over 2,100 to over 4,500 by June 2010. This cost estimate assumes a November 2009 opening date.

2008-09	\$0.0 million
2009-10	<u>9.0 million</u>
2008-10 Biennium	\$9.0 million

Grayson County Correctional Center. Construction of the new 1,024-bed medium security celled institution in Grayson County is expected to be complete in April 2010. Under normal circumstances, an opening date of July 2010 would be projected, so the following cost estimate assumes that start-up costs including hiring new staff would have to be budgeted for the spring of 2010.

2008-09	\$0.0 million
2009-10	<u>4.5 million</u>
2008-10 Biennium	\$4.5 million

Out-of-State Offenders. The department has offset reductions in its operating budget by contracting with Wyoming to house up to 300 offenders. An estimated 290 offenders will be housed in DOC facilities until the termination date for the contract, which is January 1, 2010. Continuation of this contract is neither expected nor desirable.

2008-09	\$0.0 million
2009-10	<u>3.5 million</u>
2008-10 Biennium	\$3.5 million

Department of Criminal Justice Services

State Aid to Localities With Police Departments (HB 599). The Governor's October reductions included a reduction of \$7.7 million for FY 2009 in state aid to localities with police departments (per House Bill 599 of 1979). The statutory formula requires that the total amount of state aid be increased (or in this case decreased) each year by the expected percentage increase (or decrease) in general fund revenues as assumed in the general Appropriation Act. Chapter 879, the Appropriation Act for the 2008-10 biennium, provided \$205.0 million for each year. Based on the Governor's October reduction, the FY 2009 amount would be reduced from \$205.0 to \$197.3 million. For the second year, the staff revenue estimate suggests 1.2 percent growth in GF revenues in FY 2010, which would

suggest the amount for HB 599 be increased from \$197.3 to \$199.6 million. Compared to Chapter 879, this represents a reduction of \$5.4 million for FY 2010.

2008-09	\$ (7.7 million)
2009-10	<u>(5.4 million)</u>
2008-10 Biennium	\$ (13.1 million)

Department of Forensic Science

New Northern Virginia Laboratory. The new replacement laboratory in Prince William County will open in the spring of 2009. The additional operating funds required, above the current base budget for the old laboratory in Fairfax County, are shown below:

2008-09	\$ 0.3 million
2009-10	<u>1.1 million</u>
2008-10 Biennium	\$ 1.4 million

Department of State Police

Gasoline Costs. Chapter 879 included additional funds for the first year only to cover increased gasoline costs for State Troopers' cars and other vehicles. The agency needs to fill this second year hole in its budget. This amount assumes the current lower price of gasoline.

2008-09	\$ 0.0 million
2009-10	<u>2.5 million</u>
2008-10 Biennium	\$ 2.5 million

Department of Military Affairs

Tuition Assistance. With the large number of National Guard members deployed and returning home, the department estimates that additional funds will be required to meet the demand for the tuition assistance program.

2008-09	\$ 0.0 million
2009-10	<u>1.0 million</u>
2008-10 Biennium	\$ 1.0 million

Administration and Finance

Compensation Board

Staffing for New Jails. Delays in completing the Riverside Regional Jail expansion will result in savings of \$1.0 million, while completion of the Newport News City Jail conversion project will require an additional \$0.2 million the first year. The Compensation Board is also required to provide \$3.5 million GF the second year to staff three new local or regional jails: Loudoun County Jail, New River Valley Regional Jail, Newport News City Jail, and Riverside Regional Jail.

2008-09	(\$ 0.8 million)
2009-10	<u>3.5 million</u>
2008-10 Biennium	\$ 2.7 million

Judicial Department

Court System

Criminal Fund. The Criminal Fund refers to various statutory provisions which require state payment of court-appointed counsel for indigent defendants in criminal cases, juror per diems, medical expenses, court reporters, interpreters, and other costs related to criminal trials. Expenditures totaled \$102.6 million in FY 2008. The Supreme Court of Virginia and the Department of Planning and Budget utilize different methodologies for projecting expenditures for FY 2009 and 2010, but both project expenditures to increase. An averaging of the two forecasts assumes the following additional amounts will be required:

2008-09	\$7.0 million
2009-10	<u>10.0 million</u>
2008-10 Biennium	\$17.0 million

Involuntary Mental Commitment Fund. The cost of mental evaluation and care for indigent persons in involuntary mental commitment proceedings is paid by the Involuntary Mental Commitment Fund (IMCF). An additional \$1.0 million for FY 2009 and \$2.0 million GF for FY 2010 is required to cover the projected increased cost of attorneys, physicians, and special justices. A separate appropriation for the hospitalization costs associated with this fund is included in the Department of Medical Assistance Services (DMAS).

2008-09	\$1.0 million
2009-10	<u>2.0 million</u>
2008-10 Biennium	\$3.0 million

Central Appropriations

Compensation Supplements

Health Insurance Rates. Based on current trends, an increase of about 10.1 percent is expected in employee and employer health insurance premiums for FY 2010. The general fund cost will be approximately \$39.2 million in FY 2010.

2008-09	\$ 0.0 million
2009-10	<u>39.2 million</u>
2008-10 Biennium	\$ 39.2 million

Other

Direct Aid to Public Education

Reduction in Lottery Distribution to School Divisions. *Based on 2008 action, funding from the Lottery proceeds to public education is no longer recorded under the General Fund.* The Virginia Lottery Board has accepted a revised net income projection of \$430.2 million each year in FY 2009 and FY 2010. Compared with the current estimates of \$461.0 million each year, the reduction in anticipated lottery proceeds is approximately \$30.8 million. This revenue reduction will lower the amount budgeted for *Additional Support for School Construction and Operating Costs* (one of the 11 programs supported by the Lottery in Chapter 879), which is distributed to localities on a per pupil basis.

2008-09	(\$30.8 million)
2009-10	<u>(30.8 million)</u>
2008-10 Biennium	(\$61.6 million)