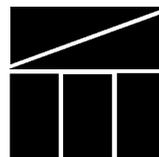


Governor Warner's proposed budget: 2004 amendments and 2004-2006 biennial budget

*A briefing for the Senate Finance
Committee, the House Appropriations
Committee, and the House Finance
Committee*

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Outline of Presentation

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Governor's Budget Objectives

- Continue Virginia's long tradition of fiscal responsibility and restore structural balance in the budget
- Maintain core services:
 - Public education
 - Higher education
 - Law enforcement/corrections
 - Safety net programs
 - Transportation
- Begin to replenish the Revenue Stabilization Fund
- Keep statutory commitments (food tax, car tax, premium tax)

Caboose Budget Bill for FY 2004: Overview

	Chapter 1042 <i>GF \$ in millions</i>	HB 29/SB 29 <i>GF \$ in millions</i>	Difference <i>GF \$ in millions</i>
Resources:			
Balance 7/1/03	\$102.7	\$ 85.6	(17.1)
Revenue	11,366.2	11,592.0	225.8
Transfers	<u>824.7</u>	<u>981.5</u>	<u>156.8</u>
Total	\$12,293.6	\$12,659.1	\$ 365.5
Spending:			
Operating Expenses	\$12,259.6	\$12,284.3	\$24.7
Capital Outlay	<u>16.4</u>	<u>16.4</u>	<u>-</u>
Total	\$12,276.0	\$12,300.7	\$24.7
Balance 6/30/04	\$17.6	\$358.4	\$340.8

Caboose Budget Bill for FY 2004: Major General Fund Changes to Resources

Balance adjustments

Year-end balance 6/30/03	\$54.9
Return accelerated sales tax to transportation	(23.6)
Hurricane Isabel (damage reserve)	(49.0)
Other natural disasters (sum sufficients)	(0.5)
Technical adjustments	<u>1.1</u>
Total	(17.1)

Revenue (December estimates) 236.8

Tax Amnesty and Compliance 33.7

Transfers

Federal flexible grants (for K-12)	240.7
Lottery proceeds	14.7
ABC profits	2.0
Court debt collections	0.9
Revenue Stabilization Fund (no withdrawal)	(128.5)
DMV (reduce transfers)	(8.3)
VITA implementation	(7.3)
IDEA fee collections	(1.2)
Watercraft funds (to DGIF)	(0.7)
Tax compliance costs (local sales tax)	<u>(0.2)</u>
Total	112.1

Net general fund resources \$365.5

Caboose Budget Bill for FY 2004: Major General Fund Changes to Spending

Spending:	<i>\$ in millions</i>
Medicaid	\$166.0
Mental health facilities	11.6
Lottery distribution to public schools	9.9
Technology activities in agencies	5.8
SOQ adjustments (ADM/sales tax/technical)	3.2
Adoption subsidy program	2.1
Involuntary Mental Commitment Fund	1.6
Foster care/special education (CSA)	1.4
Local jail per diems	1.3
FAMIS	1.1
GEAR-UP program	1.1
Other	<u>0.2</u>
Total	\$205.3
 Savings:	
Federal match for Medicaid	(123.6)
Personal property tax relief	(28.4)
Debt service	(14.2)
Mental health - Medicaid match	(7.7)
VITA implementation	(6.2)
Other	<u>(0.5)</u>
Total	(180.6)
 Net general fund spending	 \$24.7

2004-2006 Biennial Budget Development

GF \$ in millions

	<u>FY 2005</u>	<u>FY 2006</u>	<u>Biennial Total</u>
Base Requirements:			
Projected Resources (12/02)	\$12,280.5	\$12,854.8	\$25,135.3
Base Budget	<u>12,332.5</u>	<u>12,330.4</u>	<u>24,662.9</u>
Difference	(52.0)	524.4	472.4
Spending Requirements:			
Operating	839.7	1,487.0	2,326.7
Capital Outlay	<u>35.1</u>	<u>27.7</u>	<u>62.8</u>
Total	874.8	1,514.7	2,389.5
Budget Shortfall	\$(926.8)	\$(990.3)	\$(1,917.1)

Funding Issues for K-12 Public Education

- Continue to support and strengthen the Standards of Quality, Standards of Learning, and Standards of Accreditation
- Maintain funding to local school divisions by:
 - Re-basing the Standards of Quality for enrollment growth, prevailing instructional and support costs, and funded instructional salaries;
 - Dedicating additional sales tax, Lottery, and Literary Fund revenues to support public education;
 - Addressing additional instructional costs associated with increased VRS contribution rates and higher health insurance premiums.
- Address the needs of at-risk children
- Improve school accountability through the better management of student information
- Continue the implementation of the on-line testing initiative
- *Specific budget recommendations are itemized in the Appendix on page 25.*

Funding Issues for Higher Education

- Enrollment demand is projected to grow by 51,000 in-state students this decade.
 - Shortages of seats for in-state undergraduate students at four-year schools are projected to be as high as 6,300 by 2010, and much more severe at community colleges.
- About 58 percent of students complete their bachelors degrees within six years. Improving this figure will reduce educational costs and add to the workforce.
- Virginia needs to improve its competitive position in higher education research.
 - Investment in faculty start-up, equipment and technology infrastructure and promising studies has terrific potential to sustain and expand Virginia's technology economy.
- Tuition and mandatory educational fees at public colleges and universities have increased an average of about 20 percent each year for the past two years. Additional student financial aid is needed to keep college affordable for Virginia families.
- The GOB higher education projects approved by the voters in 2002 are beginning to come on line, and now require funds for operation and maintenance, including heat, lights, and janitorial services.
- *Specific budget recommendations are itemized in the Appendix on page 30.*

Funding Issues for Health and Human Resources

- Comply with federal and state mandates for service delivery
 - Olmstead decision mandate for community services
 - Temporary Assistance for Needy Families' financial partnership requires state funding
 - Comprehensive Services Act for at risk youth requires state as well as a local commitment

- Maintain access to health care
 - Provider costs to deliver care must be addressed to maintain access
 - Medicaid inflation drives costs up
 - Enrollment increases in programs must be funded (Medicaid, FAMIS, SCHIP)
 - State facilities must be adequately funded

- Provide essential services to families and individuals
 - Assure elderly, disabled, and children have a safety net
 - Assure that families progress to financial stability

- *Specific budget recommendations are itemized in the Appendix on page 37.*

Funding Issues for Public Safety

- The number of state responsible inmates are projected to increase about four percent each year of the biennium (about 1,400 additional inmates per year).
- Local jails already crowded with state inmates will back up further unless measures taken to expand state prison capacity.
- Housing of out-of-state inmates will end due to the need to use state prison beds for Virginia inmates. Revenue generated by these inmates to help cover prison operating costs must be replaced with general fund support.
- The local responsible inmate population is also projected to increase—requiring additional deputies and per diem payments for local jails.
- Additional law enforcement deputies are required for growing areas, additional funding is needed to help retain state troopers, and the state must address its radio communications needs.
- Historical state public safety funding commitments are also expanding. The HB 599 program is growing with increasing state revenues, new juvenile detention centers and jails are opening, and the cost of constitutionally required indigent defense is growing six percent over the biennium.
- *Specific budget recommendations are itemized in the Appendix on page 42.*

Funding Issues for Transportation

- Fulfilling the statutory requirements of the Virginia Transportation Act of 2000 by returning one-third of the insurance license tax from the general fund to transportation.
- This funding supplements transportation funding, which has been compromised over the past few years from less available transportation revenue from state and federal sources, and by transfers to the general fund.
- Additional general fund support also provided to cover Federal Highway Reimbursement Anticipation Notes (FRANs) debt service.
- During 2003, about \$317 million in Transportation Trust Fund (TTF) money was transferred to the general fund to meet general fund commitments. The Department of Transportation was allowed to issue FRANs as replacement for the TTF that was transferred.
- By providing the debt service on the \$317 million in FRANs, the Department of Transportation should be able to use funding for highway construction instead of paying the debt service for FRANs.
- Finally, during the 2002-04 budget, about \$87.1 million of operating funds were transferred from the Department of Transportation to the general fund. However, no funding from the department is noted for transfer in 2005 or 2006.
- *Specific budget recommendations are itemized in the Appendix on page 47.*

Funding Issues for Economic Development

- Keep commitments to companies that located in Virginia in part because of various incentive grant programs.
- Continue to attract new jobs and investment to Virginia.
- Increase tourism in Virginia.
- Assist existing Virginia businesses.
- Market distressed areas of the Commonwealth.
- *Specific budget recommendations are itemized in the Appendix on page 48.*

Funding Issues for Natural Resources

- Enhance water supply planning.
- Make deposit to the Water Quality Improvement Fund.
- *Specific budget recommendations are itemized in the Appendix on page 51.*

Funding Issues for Employee Compensation

- Attract and retain quality public employees through the provision of a comprehensive and competitive package of salaries and benefits.
- Reward the contributions and hard work of public servants including public school teachers, state supported local employees, state employees, and faculty at institutions of higher education, through the funding of salary increases.
- Acknowledge exceptional performance by classified employees through the tools available in Compensation Reform.
- Protect the retirement benefits of state government and public school employees through the funding of increased retirement contribution rates required as a result of an updated valuation of retirement system assets and liabilities.
- Minimize the impact of increasing retirement contributions on local governments.
- Preserve state employee health benefits through the funding of increased employer premiums required by an overall increase in the cost of health coverage.
- Fund increased contributions for the Virginia Sickness and Disability Program necessitated by increased enrollment and expanded coverage.
- *Specific budget recommendations are itemized in the Appendix on page 52.*

Funding Issues for General Government

- Keep statutory commitment on Personal Property Tax.
- Replenish revenue stabilization fund.
- Fund debt service requirements for previously approved and new capital projects.
- Implement technology and procurement reforms.
- Maintain essential operations of state government.
- *Specific budget recommendations are itemized in the Appendix on page 54.*

Funding Issues for Capital Outlay

- Provide funding to purchase equipment and complete the priority capital projects that were authorized by the General Assembly during its last two sessions.
- Address critical infrastructure issues and life safety needs.
- Provide new educational facilities, research capacity, and other physical plant improvements (contingent upon tax reform).
- *Specific budget recommendations are itemized in the Appendix on page 56.*

2004-2006 Biennial Budget Development

GF \$ in millions

	<u>FY 2005</u>	<u>FY 2006</u>	<u>Biennial Total</u>
Base Requirements:			
Projected Resources 12/02	\$12,280.5	\$12,854.8	\$25,135.3
Base Budget (includes technicals)	<u>12,332.5</u>	<u>12,330.4</u>	<u>24,662.9</u>
Difference	(52.0)	524.4	472.4
Spending Requirements:			
Operating	839.7	1,487.0	2,326.7
Capital Outlay	<u>35.1</u>	<u>27.7</u>	<u>62.8</u>
Total	874.8	1,514.7	2,389.5
Budget Shortfall	\$(926.8)	\$(990.3)	\$(1,917.1)
Balancing Actions:			
FY 2004 ending balance	358.4	--	358.4
Savings	\$89.1	\$92.4	\$181.5

Savings Actions

GF \$ in millions

Utilize Literary Fund resources

\$30.8

- Supplants general fund support for teacher retirement and social security with Literary Fund support. These additional funds result from a revised projection of Literary Fund revenues, and a reduction in the interest rate subsidy amount provided from \$10 million to \$5 million each year. This interest rate subsidy reduction simply reflects the demand for the subsidies experienced in the fall of 2003.

Indigent health care funding

\$28.0

- Reimbursement initiatives to reduce the reliance of the Commonwealth's academic health centers on general fund subsidies. Addresses the needs of the academic health centers using nongeneral fund resources.

Reduce appropriation for technology reform

\$28.0

- Reduces funds for the statewide technology reform initiative. Adjustment is made to reflect the revised implementation schedule of consolidation activities and reduces funding for help desk activities, software license purchases, and retraining costs.

Adjust funding for state employee retirement

\$27.3

- Adjusts employer retirement contribution funding to reflect a 30-year funding period rather than 23 years. This adjustment will have no impact on current or future retirement benefits.

Employee group life insurance coverage

\$27.0

- Continues the employer premium holiday on group life insurance coverage for state employees. This action will have no impact on benefits.

Savings Actions (cont'd)

GF \$ in millions

State maximum allowable cost **\$10.4**

- Establishes a pricing model in Department of Medical Assistance Services that would set a state maximum allowable cost (MAC) for generic drugs.

**Remove general fund supplement for
Emergency Medical Services system** **\$6.4**

- Removes general fund support for emergency medical services system in anticipation of the system receiving an additional \$13.8 million each year from motor vehicle registration surcharges.

Produce operations efficiency savings **\$5.0**

- Savings achieved by VITA management actions such as business practices, technology enhancements, operational efficiencies, or other cost-containment measures which will result in rate reductions. (Savings are all funds.)

Implement VITA savings strategy **\$2.7**

- Includes savings from reduced cell-phone usage and a new COVANET telecommunications contract.

**Incorporate the AIDS Waiver into the Elderly &
Disabled Waiver** **\$2.4**

- Reflects the fact that the number of individuals served by the AIDS Waiver has been steadily decreasing since 1999, when 516 individuals were enrolled. As of FY 2003, 272 individuals were receiving AIDS Waiver services.

Savings Actions (cont'd)

GF \$ in millions

Support med-flight operations with Emergency Medical Services revenue **\$2.1**

- Replaces general fund support for med-flight operations with new emergency medical services revenue.

Test phase of disease state management **\$2.0**

- Reflects the agency's effort to explore various options to implement and operate a disease state management program during the biennium that will yield both maximum quality care to recipients and savings to the Commonwealth.

Replace funding for corrections operations **\$2.0**

- Replaces general fund support for corrections operations with nongeneral funds from Virginia Correctional Enterprises funds.

Redirect automation resources in the Office of Vital Records and Health Statistics **\$1.9**

- Redirects two dollars of the four dollars currently dedicated to the automation of vital records to support the operations of the Office of Vital Records. This action recognizes the progress made by the office to transition over 4.4 million birth records dating back to 1915 to an electronic format. Increasing operating revenue will free general fund dollars and allow the Office to be fully self-supporting.

Savings Actions (cont'd)

GF \$ in millions

Capture savings from efficiencies in the Department of Taxation federal debt setoff program **\$1.2**

- Increased efficiencies in the Department of Taxation's program permit the adjustment to capture program savings.

Consolidate prison warehouse operations **\$1.2**

- Consolidates administrative operations of warehouses located at nearby prison facilities.

Defer equipment purchases **\$0.7**

- Defers purchases of equipment by the Department of Corrections in FY 2005.

Replace funding for State Records Center **\$0.3**

- Use revenues generated by center.

Reduce Department of Taxation warehouse space **\$0.2**

- Smaller lease payments for rented space result from reduced square footage needed for the warehouse

Reduce regional criminal justice academies funding **\$0.2**

- This program supports regional criminal justice academies that train local law enforcement personnel for localities without their own training academies.

2004-2006 Biennial Budget Development

GF \$ in millions

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Total	874.8	1,514.7	2,389.5
Budget Shortfall	(926.8)	(990.3)	(1,917.1)
Balancing Actions:			
FY 2004 ending balance	\$358.4	--	\$358.4
Savings	89.1	92.4	181.5
Projected resources 12/03	456.1	511.4	967.5
Tax Reform			
Gross	481.5	546.2	1,027.8
Earmarking	<u>(325.8)</u>	<u>(282.8)</u>	<u>(608.6)</u>
Net	<u>155.8</u>	<u>263.8</u>	<u>419.2</u>
Total balancing actions	1,059.4	867.2	1,926.6
Balance	\$132.6	\$(123.1)	\$9.5

New Dedicated Funds Contingent on Tax Reform

Virginia Health Care Fund **\$587.0**

- A fund dedicated to the core health care costs of Virginia's budget, particularly in the Medicaid program. The fund consists of revenue from the general fund share of the annual Master Tobacco Settlement fund, the Tobacco Products Tax, and Medicaid recoveries.

Virginia Natural and Historic Resources Fund **\$30.2**

- A special fund for natural and historic resource purposes from the state recordation tax fee. (Separate legislation will be proposed pertaining to the use of the new special fund.)

Emergency Medical Services **\$13.8**

- Redirect \$2 motor vehicle registration surcharge (from HB 82) to support the state's emergency medical services system, which includes distributions to training and coordinating organizations. Medflight operations will also be continued.

Appendix

Spending Recommendations for K-12 Public Education

GF \$ in millions

Update Direct Aid To Local School Divisions

Update Standards of Quality (SOQ) \$306.4

- Provides for the biennial update of the SOQ accounts based on fall membership, school instructional and support expenditures, funded instructional salaries, and other technical adjustments; and, reflects an increase of 15,006 in 2005 and 31,229 in 2006 in the Average Daily Membership.

Adjust benefit contribution rates for SOQ positions \$168.0

- Supports contribution rates based on a valuation of fund assets and liabilities as of June 30, 2003 and provides retirement contribution funding by realizing the gains and losses of the system over 30 years as opposed to 23 years as originally calculated by the VRS actuary.

Update sales tax revenues \$66.2

- Provides funding for a technical change to the Standards of Quality to account for revised sales tax projections.

Update accounts for changes to the composite index \$53.5

- Adjusts Standards of Quality and incentive-based accounts for a technical revision to the composite index, a measure of local ability-to-pay used to distribute funding to local school divisions.

Spending Recommendations for K-12 Public Education (cont'd)

GF \$ in millions

Increase funding for incentive-based accounts **\$40.6**

- Updates programs, designed to address specific education needs of targeted student populations, for changes in fall membership, participation rates, and test scores.

Increase funding for categorical accounts **\$30.4**

- Provides increased funding for education programs mostly mandated by state or federal statutes or regulations.

Provide additional Lottery proceeds to school divisions **\$5.1**

- Provides funding distribution to local school divisions based on the normal state/local shares calculation, after funding the additional cost of the new Standards of Quality remediation program.

Target Funding to At-Risk Children

Adopt new Standards of Quality remediation program **\$41.2**

- Utilizes additional Lottery proceeds to support the Board of Education's recommendation to revise the Standards of Quality prevention, intervention, and remediation program.

Spending Recommendations for K-12 Public Education (cont'd)

GF \$ in millions

Increase funding for English as a Second Language **\$19.7**

- Provides additional funds to support school divisions by increasing the student to teacher ratio from 10 to 17 instructional positions per 1,000 students for whom English is a second language to more accurately reflect prevailing practice. This funding is contingent on tax reform.

Address No Child Left Behind requirements **\$11.4**

- Provides additional funds to support local school division requirements under the provisions of the federal No Child Left Behind (NCLB) Act of 2001.

Provide funding for Project Graduation **\$6.3**

- Provides additional funds to continue an innovative plan to help rising high school seniors meet next year's requirements for a Standard Diploma.

Increase support for at-risk four-year-olds program **\$4.5**

- Provides additional funds to support at-risk children by reducing the current Title I deduction from 100 percent to 67 percent. This funding is contingent on tax reform.

Spending Recommendations for K-12 Public Education (cont'd)

GF \$ in millions

Target Funding to Certain School Divisions

Support cost of competing adjustment **\$7.1**

- Recognizes the full recommended cost of living differential for Standards of Quality related positions in Northern Virginia. This funding is contingent on tax reform.

Institute no loss provision **\$3.7**

- Provides funds to maintain funding at those school divisions that would have otherwise lost funding from base year 2004.

Support Educational Services

Maintain current Standards of Learning (SOL) testing **\$6.3**

- Provides for the contractual inflation adjustment and increased enrollment, but maintains the current SOL testing program with no change in services.

School system efficiency reviews **\$5.7**

- Includes 15 reviews the first year and 20 reviews the second year of local school systems

Spending Recommendations for K-12 Public Education (cont'd)

GF \$ in millions

Implement statewide student information system **\$4.4**

- Provides funding for the development of a statewide, student-level data collection and education information management system that will improve the Department of Education's data collection, analysis, and reporting capability in order to meet the requirements of the federal No Child Left Behind Act.

Continue implementation of web-based on-line testing **\$3.7**

- Provides funding for the continued implementation of web-based SOL testing at Virginia's high schools, with the goal that all public high schools will be capable of administering web-based SOL end-of-course tests by Spring 2004.

Support funding for National Board Certification bonuses **\$1.5**

- Support the current level of teacher bonuses for all teachers receiving the initial award prior to July 1, 2004; however, the initial bonus in 2005 for teachers achieving certification in December 2004 and in future years is changed from \$5,000 to \$3,000 and continuing bonuses for such teachers are reduced from \$2,500 to \$1,000.

Spending Recommendations for Higher Education

GF \$ in millions

Base Operating Needs, Student Enrollment, Degree Completion And Research

Base operating needs and student enrollment **\$82.1**

- Puts institutions of higher education on a six-year path to meeting base funding needs, and recognizes those institutions that have experienced significant growth and are positioned to take additional students. These funds will allow institutions to hire additional faculty, purchase instructional equipment and library materials, and enhance technology in the classroom in support of the teaching and research missions. Total funding provided is \$111.7 million (GF/NGF). Funding for this initiative is contingent on passage of the Governor's proposed tax reform legislation.

Strengthening academic programs **\$12.4**

- Provides funds to support the development and improvement of academic programs, meet accreditation standards and expand the technological infrastructure at Norfolk State and Virginia State Universities. Funding is also provided to address the maintenance backlog at both schools and the Virginia State Extension Service.

Higher Education Equipment Trust Fund **\$11.4**

- Provides funding to support the purchase of \$52.2 million in instructional and research equipment in each year of the biennium.

Spending Recommendations for Higher Education (cont'd)

GF \$ in millions

Need-based student financial assistance **\$9.1**

- Provides additional need-based student financial aid to keep up with modest tuition increases.

Northern Virginia Medical Education Campus **\$7.0**

- Provides funds for faculty and staff to train hundreds more students in high-demand health care fields at the Medical Education Campus at Northern Virginia Community College. Total funding provided for this item is \$10.8 million (GF/NGF).

Tuition Assistance Grants (TAG) **\$4.5**

- Provides funding to increase the average tuition assistance grant award from \$2,210 in 2004 to \$2,400 in 2005 and \$2,450 in 2006. Funding for this initiative is contingent on passage of the Governor's proposed tax reform legislation.

Operation and maintenance of new facilities **\$3.7**

- Provides funding to operate and maintain new facilities at institutions of higher education that will be completed during fiscal year 2005. Total funding provided for this item is \$6.9 million (GF/NGF).

Spending Recommendations for Higher Education (cont'd)

GF \$ in millions

Institute for Advanced Learning and Research **\$3.0**

- Provides new funding for a political subdivision in Danville designed to plan and coordinate economic development and higher education research, and continuing education activities in Southside Virginia. Funding for this initiative is contingent on passage of the Governor's proposed tax reform legislation.

Virtual Library of Virginia **\$2.9**

- Provides funding the Virtual Library of Virginia to support on-line database licenses and inter-library loan activities, which serve about 375,000 student and faculty at Virginia's public and private nonprofit institutions of higher education. Funding for this initiative is contingent on passage of the Governor's proposed tax reform legislation.

Mid-Atlantic Terascale Partnership **\$2.4**

- Provides funding to support six research institutions' participation in the Mid-Atlantic Terascale Partnership. These funds will be used to gain access to advanced national communication networks for computation-intensive research. Institutions will contribute at least \$5.0 million from existing funds over the next five years. Funding for this initiative is contingent on passage of the Governor's proposed tax reform legislation.

Spending Recommendations for Higher Education (cont'd)

GF \$ in millions

Military tuition waivers **\$2.0**

- Provides funds to support regions of the state most affected by base realignment and closure (BRAC) by offsetting the difference in tuition and fee charges between resident and nonresident students for children and spouses of military personnel. Funding for this initiative is contingent on passage of the Governor's proposed tax reform legislation.

Agricultural research **\$1.4**

- Provides funding to develop high-value crops at Virginia Tech Extension. Funding for this initiative is contingent on passage of the Governor's proposed tax reform legislation.

Tidewater Community College administrative office **\$0.8**

- Provides support for lease payments or debt service for space to house a consolidated administrative office in Norfolk that will serve all Tidewater Community College campuses. Total funding provided for this item is \$1.2 million (GF/NGF).

Higher education centers **\$0.4**

- Provides funds to improve educational outreach activities, student services, and academic support at Southwest Virginia and Roanoke Higher Education Centers. Funding for this initiative is contingent on passage of the Governor's proposed tax reform legislation.

Spending Recommendations for Higher Education (cont'd)

GF \$ in millions

Space Grant Consortium **\$0.3**

- Restores scholarship funding to the Virginia Space Grant Consortium universities (College of William and Mary, Hampton University, Old Dominion University, University of Virginia, and Virginia Tech) for scholarships for students pursuing degrees in mathematics, the sciences, technology, and engineering.

Private college transfer grant **\$0.3**

- Provides funds for a pilot program to relieve enrollment pressure on public colleges and universities and to increase college participation whereby graduates of public two-year institutions receive subsidies to attend private four-year institutions in parts of the state where participation is below average.

Student participation and success **\$0.3**

- Provides funds for the State Council of Higher Education to work with agencies and institutions of higher education to develop, implement, and evaluate activities that increase enrollment and completion of degree programs.

Tuition and fee policy **language**

- Modifies tuition and fee policy to give Boards of Visitors authority to approve tuition and fee charges to support base operating needs, student enrollment, degree completion, and research.

Spending Recommendations for Higher Education (cont'd)

GF \$ in millions

Indirect cost recoveries

language

- Allows institutions to retain all indirect cost recoveries for grants and contracts in excess of previously authorized levels.

Graduate tuition waivers

language

- Gives institutions of higher education additional flexibility in providing tuition waivers to nonresident graduate students, thereby increasing our ability to attract these students.

Fund Virginia Economic Bridge

\$0.1

- Provides funding to support the Virginia Economic Bridge, an organization dedicated to promoting economic vitality through partnerships among business, industry, and educational institutions. This funding is contingent upon passage of the Governor's proposed tax reform legislation.

Create Virginia Cancer Research Fund

\$0.1

- Provides funding to create the Virginia Cancer Research Fund by adding a check-off box to the Virginia Individual Income Tax Form. The money collected through this mechanism will pass directly to the two cancer centers located at UVA Medical Center and VCU Medical Center.

Spending Recommendations for Higher Education (cont'd)

GF \$ in millions

Other Miscellaneous Education

Operation and maintenance of new facilities **\$2.2**

- Provides funding to operate and maintain new facilities at Jamestown-Yorktown Foundation that will be completed during Fiscal year 2005. Total funding provided for this item is \$2.4 million (GF/NGF).

Funding for the arts **\$0.6**

- Provides additional funding for grants awarded by the commission. Funding for this initiative is contingent on passage of the Governor's proposed tax reform legislation.

Spending Recommendations for Health and Human Resources

GF \$ in millions

Olmstead Initiatives

Funding for these initiatives is contingent upon passage of the Governor's tax proposal.

Fund mental health discharge assistance plans **\$9.0**

- Allow 77 long-term extended rehabilitation patients to be discharged from state mental health facilities to receive appropriate care and services in community-based settings.

Fund additional mental retardation waiver slots **\$6.7**

- Support community-based services for 160 individuals with mental retardation, 107 of whom will be able to be discharged from state facilities.

Implement Programs of Assertive Community Treatment (PACT) **\$4.6**

- Create three additional PACT teams in communities to stabilize mental health consumers in community settings, alleviating the need for hospitalization.

Increase community mental health services for non-mandated children and adolescents **\$4.0**

- Provide additional services to address the needs of children with serious emotional disturbances who are not mandated for services under the Comprehensive Services Act.

Spending Recommendations for Health and Human Resources (cont'd)

GF \$ in millions

Increase inpatient treatment purchased in community hospitals **\$2.0**

- Expand the purchase of short-term inpatient treatment at local hospitals, reducing admissions and possible longer-term stays in state facilities.

Fund individual and family developmental disabilities support waivers **\$0.8**

- Add 25 new slots for individuals six years of age and older with a condition related to mental retardation who have been determined to require the level of care provided in an Intermediate Care Facility for the Mentally Retarded (ICF/MR).

Expand public guardian and conservator program **\$0.4**

- Establishes about five new programs to serve adults ages 18 and older who do not have the financial resources to pay for services of a guardian and who have no family or friends able to provide the service.

Develop a waiver for persons with Alzheimer's disease and related dementias **Language**

- Enrolls no more than 200 individuals in the first year for services tailored to their special needs.

Spending Recommendations for Health and Human Resources (cont'd)

GF \$ in millions

Health Care Access

Medicaid utilization and inflation **\$120.8**

- Reflect the estimated general fund need for the biennium of approximately \$707.8 million being replaced by special funds totaling \$587.0 million.

Medical assistance services for low-income children utilization and inflation **\$16.5**

- Add support for the Commonwealth's Medicaid children's health insurance program with enrollment estimated to reach over 28,000 by the end of the biennium.

Family Access to Medical Insurance Security Plan utilization and inflation **\$14.8**

- Reflect an estimated enrollment in the Family Access to Medical Insurance Security (FAMIS) Plan of almost 46,000 by the end of the biennium.

Revenue maximization adjustments **\$13.8**

- Adjust savings estimates to reflect actual results from Department of Medical Assistance Services.

Payments to nursing facilities **\$9.7**

- Increase nursing facility rates by \$3 per day. Reflects a 2.67 percent increase based on 6,493,991 patient days. Funding in FY 2006 is contingent upon passage of the Governor's tax proposal.

Spending Recommendations for Health and Human Resources (cont'd)

GF \$ in millions

Inpatient hospital adjustment factor **\$9.1**

- Provide additional funds to increase the hospital adjustment factor from about 72 percent to 75 percent and decrease the amount of discount the Commonwealth receives. Funding in FY 2006 is contingent upon passage of the Governor's tax proposal.

Medical services for involuntary mental commitments **\$3.1**

- Ensure uninterrupted hospital and physician services for individuals subject to involuntary mental commitment.

Services for Families and Children

Provide special education and foster care services for at-risk youth **\$46.8**

- Provide additional funding for mandated services for children with emotional and behavioral problems under the Comprehensive Services Act.

Fund adoption subsidies and Title IV-E foster care maintenance payments **\$25.5**

- Increase mandated support to account for increasing caseloads and expenditures.

Address shortfalls in Temporary Assistance for Needy Families (TANF) benefits and maintenance of effort (MOE) **\$20.7**

- Add funds for federally mandated cash assistance that is provided to needy families with dependent children for the purchase of necessities, such as shelter. Failure to fully fund MOE would result in significant TANF grant penalties, roughly equal to double the annual MOE shortfall.

Spending Recommendations for Health and Human Resources (cont'd)

GF \$ in millions

Provide child care services to at-risk, low-income families **\$6.6**

- Continue subsidies to at-risk, low-income families who need child care in order to sustain employment, education, and/or training. Child care assistance allows these families to maintain economic independence. This funding will also leverage an equal amount (\$3.3 million per year) of federal dollars.

Other Base Operating Requirements

Address shortfall in revenue at mental health facilities **\$29.6**

- Provide operating funds for mental health treatment centers to replace lost revenue attributable to a declining census.

Fund staffing at the Va. Center for Behavioral Rehabilitation **\$9.1**

- Provide funds to adequately staff and operate the secure program for the treatment of civilly committed sexually violent predators.

Fund cost increase for the Electronic Benefits Transfer system for food stamp benefits **\$1.8**

- Fund contractual obligations for the administration of the Electronic Benefits Transfer (EBT) system. The EBT system is a federally mandated program to use existing electronic funds transfer infrastructure and point-of-sale technology.

Spending Recommendations for Public Safety

GF \$ in millions

Address Prison Capacity Issues

Offset decrease in out of-state inmate revenue **\$35.0**

- An increasing state inmate population means that Virginia can no longer house out-of-state inmates to help cover the costs of prison operations. Funding is required to offset this loss of revenue.

Direct inmate costs (adult and juvenile) **\$22.3**

- With increasing inmate populations and rising medical treatment costs, additional funding is required to maintain adult and juvenile correctional operations.

Local jail per diems **\$15.1**

- With increasing local and state inmate populations, the per diem payments to jails to house these inmates are increasing.

Reopen Nottoway Work Center **\$6.1**

- To provide additional capacity to hold state inmates, funding is provided to reopen the Nottoway Work Center.

Continue treatment programs (adult and juvenile) **\$5.1**

- Funding is required to offset expiring federal grants to continue treatment programs for adults and juveniles. These programs help reduce recidivism rates, and allow more options for addressing the growing inmate population.

Spending Recommendations for Public Safety (cont'd)

GF \$ in millions

Additional deputies for jail crowding **\$3.8**

- To help accommodate additional inmate crowding in local jails, funding for additional deputies is provided.

Expand jail contract bed program **\$3.3**

- Funding is provided to contract with jails with excess capacity to house state inmates.

Expand inmate transition program **\$2.8**

- This funding allows more inmates to be placed in halfway houses prior to being fully released to society. This frees up more prison space for the growing inmate population.

Expand use of temporary prison beds **\$2.6**

- Provides for the temporary increasing of crowding in the prison system to help accommodate additional inmates.

Expand jail pre-release programs **\$0.9**

- Enhances a pilot program that allows jails to replace state inmates awaiting transfer to prison with inmates having only 90 days before being released.

Spending Recommendations for Public Safety (cont'd)

GF \$ in millions

Strengthen Security

Statewide agencies radio system (STARS) project **\$5.0**

- Provides funding to cover the management and oversight costs of implementing the STARS project

Juvenile Justice security positions **\$2.7**

- Additional funding will allow the Department of Juvenile Justice to fill vacant security positions needed to adequately oversee juvenile correctional centers. (Contingent on tax reform.)

Additional law enforcement deputies (1:1,500 ratio) **\$1.5**

- Additional law enforcement deputies are provided to meet the statutory mandate of one deputy for every 1,500 people in those counties where sheriffs provide law enforcement.

Matching funds for SAFER program **\$1.2**

- A new federal program to pay for additional local firefighters requires a 10 percent match in the first year of the program. This matching funding will support any locality wanting to participate in this program. (Contingent on tax reform.)

Matching funds to strengthen forensics program **\$0.5**

- Funding to match a federal grant will allow the Division of Forensics to strengthen its analytical capabilities and allow for the analysis of more DNA samples.

Spending Recommendations for Public Safety (cont'd)

GF \$ in millions

Strengthen training for Commonwealth's Attorneys **\$0.4**

- Funding to ensure Commonwealth's Attorneys are adequately trained. (Contingent on tax reform.)

Department of Forestry two-way radio system **\$0.4**

- Contingent upon tax reform, \$1.2 million of equipment will be financed through the Master Equipment Lease Program

Meet State Public Safety Commitments

HB 599 payments **\$35.6**

- In conjunction with increasing general fund revenues, the amounts for the 599 revenue sharing program are increased accordingly. (Contingent on tax reform.)

Criminal and Involuntary Mental Commitment Funds **\$14.8**

- To address the projected spending on indigent defense.

Deputies for new jail facilities **\$10.3**

- Funding is provided to support the operating costs for new jail facilities opening next biennium.

Juvenile detention center operating payments **\$4.0**

- Funding to support the opening of a new juvenile detention center in Virginia Beach, and additional equipment and furnishings at juvenile detention centers in Henrico and Hampton/Newport News.

Spending Recommendations for Public Safety (cont'd)

GF \$ in millions

Other Public Safety

Line of Duty	\$5.6
<ul style="list-style-type: none">• Provides for death benefit payments and health insurance benefits for certain deceased or disabled public safety officers	
Trooper retention funding	\$5.0
<ul style="list-style-type: none">• Additional funding is provided to fund the pay increase for state troopers required by the 2003 General Assembly, as well as funding to allow a minimum starting salary of \$31,000. (\$3 million of this amount is contingent on tax reform.)	
Office rent increases (Public Defenders)	\$0.6
<ul style="list-style-type: none">• To cover increasing lease costs at public defender offices throughout the state.	
Higher FICA cap (courts)	\$0.4
<ul style="list-style-type: none">• Provides for additional social security costs incurred by the court system.	
Board of Bar Examiners executive position	\$0.1
<ul style="list-style-type: none">• Funding to support a full time Secretary/Treasurer position at the Board of Bar Examiners.	

Spending Recommendations for Transportation

GF \$ in millions

Strengthen Transportation Funding

1/3 insurance premiums tax to priority transportation fund **\$272.0**

- Meets statutory requirement to provide general fund support for transportation. (Contingent on tax reform.)

General fund support for FRAN debt service **\$74.8**

- Provides the balance of funding required to pay debt service on Federal Highway Reimbursement Anticipation Notes.
- An additional \$9.0 million in general fund support is provided to supplement \$65.8 million of general fund support already within the base budget to fully cover debt services payments.

No transfers of VDOT operating funds to the general fund

- Other than recovery of normal overhead costs, no transportation funds used for VDOT operations are transferred to the general fund.

Spending Recommendations for Economic Development

GF \$ in millions

Keep Commitments to Companies

Semiconductor manufacturing performance grants **\$13.4**

- Provides for initial grant payments under the semiconductor manufacturing performance grant programs.

Solar photovoltaic manufacturing incentive grant program **\$1.9**

Attract New Jobs and Investment to Virginia

Governor's Development Opportunity Fund **\$3.0**

- Provides an additional \$3.0 million fund (for a biennial total of \$23.0 million) to make grants or loans to attract economic development prospects or to secure the expansion of existing industry in the Commonwealth.

Market distressed areas to attract business **\$2.0**

- Effort is contingent upon passage of the Governor's proposed tax reform legislation

Attract motor sports-related businesses to Virginia **\$0.5**

- Provides funds to identify and recruit businesses that support and supply the auto racing industry to Virginia

Spending Recommendations for Economic Development (cont'd)

GF \$ in millions

Increase Tourism in Virginia

Advertise and market the Jamestown 2007 commemoration and create a partnership leveraging program **\$2.0**

- Efforts are contingent upon passage of the Governor's proposed tax reform legislation

Establish a partnership leveraging program for outdoor resources tourism **\$0.3**

- Targeted towards outdoor recreation and eco-tourism

Assist Existing Virginia Businesses

Procurement advocates for minority business contracts with the Commonwealth **\$0.6**

- Additional procurement advocates will promote and advocate for minority business contracts with the Commonwealth

Expand apprenticeship opportunities **\$0.4**

- Expand program to grow by 2,000 more apprentices per year

Spending Recommendations for Economic Development (cont'd)

GF \$ in millions

Other

Virginia Commission on Military Bases **\$1.0**

- Provides support for a Virginia military strategic planning grant program and operating support

Fire safety in high-risk buildings **\$0.3**

- Provides funds to inspect buildings not currently inspected by local fire marshals such as hospitals, private schools, private college dormitories and nightclubs

Spending Recommendations for Natural Resources

	<i>GF \$ in millions</i>
Water Quality Improvement Fund	\$7.7
<ul style="list-style-type: none">• Deposit funds for point source pollution control \$5.8 million• Deposit funds for non-point source clean-up \$1.9 million	
Water supply planning	\$1.0
<ul style="list-style-type: none">• Provides technical and financial assistance to localities to develop water supply plans	
Dam safety program and repair of highest-hazard dams	\$0.6
<ul style="list-style-type: none">• State law revisions require inspection and certification of 800 additional dams	
Tangier seawall	\$0.3
<ul style="list-style-type: none">• Provides state funding for Army Corps of Engineers \$2.4 million seawall construction project to protect the harbor on Tangier Island	
Environmental impact study of non-native oysters	\$0.2
<ul style="list-style-type: none">• Provides state funding for Army Corps of Engineers study on the introduction of non-native oysters in Virginia and Maryland waters to help revitalize the oyster industry	

Spending Recommendations for Employee Compensation

GF \$ in millions

State employee health insurance

\$66.0

- Provides for an increase in the premiums paid by state agencies on behalf of state employees for health insurance coverage.

Salary increases for public school employees

\$50.9

- Contingent upon tax reform, provides on December 1, 2005, the state share of a three percent salary increase for public school instructional and support staff funded through the Standards of Quality and other state-funded accounts.

Salary increases for state employees and faculty

\$42.0

- Provides a base salary increase of three percent on November 25, 2005 for all full-time state employees.
- Classified employees who attain a rating of “Extraordinary Contributor” on their performance evaluation will receive an additional one percent base adjustment.
- Provides an average three percent salary increase for faculty at the Commonwealth’s higher education institutions.
- Funding is contingent upon the passage of tax reform.

State employee sickness and disability coverage

\$17.3

- Increased cost due to greater participation by state employees.

Spending Recommendations for Employee Compensation (cont'd)

GF \$ in millions

Salary increases for state supported local employees **\$12.4**

- Contingent upon tax reform, provides on December 1, 2005, a three percent salary increase for constitutional officers, local social services employees, election board employees, local health employees, local juvenile justice workers, and others state supported local employees.

State employee and public school teacher retirement **\$5.8**

- Along with associated savings of \$52.4 million in the state share of public school teacher retirement, this funding provides the incremental amount required to pool the retirement contributions for state employees and public school teachers into one rate.
- The pooling of the retirement contributions for these groups saves localities over \$42 million for the biennium in the cost of teacher retirement.
- Funding of the pooled rates is contingent upon the passage of tax reform.

Spending Recommendations for General Government

GF \$ in millions

Personal Property Tax **\$260.0**

- Includes \$103.4 million to continue personal property tax relief at the 70 percent level. Total funding for FY 2006 is \$996.9 million.
- Includes \$156.6 million, contingent on tax reform, to increase reimbursements to localities for car tax relief to 77.5 percent in calendar year 2005, and 85 percent in calendar year 2006. At 100 percent, car tax relief will cost about \$1.5 billion.

Revenue Stabilization Fund deposit **\$87.0**

Debt service **\$82.6**

- Includes Virginia Public Building Authority, Virginia College Building Authority and Higher Education Equipment
- Funds debt service on capital projects approved by the past two sessions of the General Assembly and proposed new projects

Public-Private Tax Partnership **\$22.3**

- Provides support for the Department of Taxation to assume the ongoing costs of the new tax system following the contract with American Management Systems, Inc.

Restore in-house information technology funding **\$18.0**

- Restores savings taken from agencies to account for legislated changes to the implementation schedule and scope of the initiative.

Spending Recommendations for General Government (cont'd)

GF \$ in millions

Aid to localities payments	\$6.0
<ul style="list-style-type: none">• Distributes additional alcoholic beverage control profits, wine taxes and other taxes to localities	
Support start-up costs for VITA consolidation	\$4.8
<ul style="list-style-type: none">• Funds start-up costs to implement the Virginia Information Technologies Agency consolidation effort in network management and security, customer care, and desktop services.	
Rebase registrars and local electoral board salaries.	\$2.0
<ul style="list-style-type: none">• Funds adjusted salary levels of general registrars and local boards of election based on changes in population and updates to salaries.	
Funding for rental charges at seat of government	\$1.9
Enhance services for veterans	\$0.3
<ul style="list-style-type: none">• Adds positions in four field offices (Big Stone Gap, Cedar Bluff, Wytheville, and Charlottesville) to increase access to veterans services. This funding is contingent on passage of the Governor's tax reform legislation.	

Capital Outlay Recommendations

- The Governor's first priority is to complete the \$1.9 billion in tax supported debt authorized by the last two sessions for critical capital projects. An additional \$179 million is still needed to complete these projects.
- The Governor's remaining priorities are to address:
 - Code compliance or essential infrastructure repairs necessary for the continued use of a building,
 - Public safety issues, and,
 - Access to higher education and expanded research capacity.
- The Governor's 2004-2006 biennium capital budget provides \$1,241.5 million from the general fund, from state debt (including both tax-supported and non-tax-supported debt), and from nongeneral fund sources to construct, renovate, repair, or maintain state-owned buildings.

General fund **\$62.9**

- Maintenance Reserve

Nongeneral fund **\$439.2**

- Includes \$251.4 of higher education operating funds
- Construct a medical education building and the Maywood Connector at UVA
- Renovate and expand the Virginia Museum of Fine Arts
- Establish the Jamestown 2007 special exhibit
- Construct several headquarters/residency facilities for the Department of Transportation

Capital Outlay Recommendations (cont'd)

Self-supporting 9(d) \$275.2

- New student centers at the Norfolk and Virginia Beach campuses of the Tidewater Community College
- New student housing at VCU
- Parking garages at multiple institutions of higher education

New VPBA projects & supplements to existing projects \$214.1

- Construct a medium security prison
- Expand Deerfield Correctional Center
- Replace St. Brides, Phase II
- Equip the Emergency Operations Center for Emergency Management
- Supplement State Capitol Project
- Construct permanent facility for sexually violent prisoners

New VCBA projects & supplements to existing projects \$133.2

- Upgrade the main heating plant at UVA for environmental compliance
- Construct School of Nursing at VCU
- Construct Bioinformatics Facility at Virginia Tech

Self-supporting 9(c) revenue bonds \$116.9

- Student housing at George Mason University
- Student housing at UVA
- Renovation of Commons Dining Hall at William & Mary

Tax Reform Capital Outlay Recommendations

- A separate bill includes \$273.3 million in capital projects for new construction.
- Funding is contingent upon passage of tax reform.

<i>Institution</i>	<i>Project Description</i>	<i>GF \$ in millions</i>
CWM	Construct New Information Technology Building	\$8.3
CWM	Renovate Four Lecture Halls in Two Academic Buildings	\$1.4
UVa	Construct Addition to McLeod Hall to expand the School of Nursing	\$6.0
UVa	Construct Ivy Stacks Addition	\$8.9
VPI	Construct Critical Technologies Research Laboratory	\$14.0
UVa MC	Construct Cancer Center addition	\$20.0
VMI	Renovate Kilbourne Hall	\$9.9
VMI	Improve Athletic Facilities and construct new playing fields	\$1.8
VSU	Renovate Lockett Hall - Center for Funded Research	\$6.3
VSU	Renovate Central Stores building for Campus Police Station	\$2.2
NSU	Construct Public Safety Building	\$4.1
NSU	Construct Campus Wall for security	\$5.0
LW	Renovate and expand Lankford Hall	\$5.7
LW	Modernize Heating Plant, Phase III	\$4.3
MWC	Renovate and construct addition to George Washington Hall	\$8.0
JMU	Upgrade Campus Network Infrastructure	\$10.7
RU	Renovate Whitt Hall	\$4.0
ODU	Construct Systems Research Center	\$11.4
ODU	Improve 43rd Street along Southern edge of Campus	\$1.0

<i>Institution</i>	<i>Project Description</i>	<i>GF \$ in millions</i>
VCU	Construct New School of Business	\$14.0
CNU	Renovate Wingfield Hall	\$7.3
UVa Wise	Renovate Smiddy Hall and construct new facility for Information Technology	\$6.7
GMU	Renovate Robinson A Academic Building	\$14.5
VCCS	Construct Addition to Science Building, Blue Ridge	\$2.1
VCCS	Construct Phase III Buildings, Loudoun Campus, Northern Virginia	\$19.3
VCCS	Renovate Blackwater Building, Virginia Beach Campus, Tidewater	\$6.3
VCCS	Renovate top floor, Galax Hall, Wytheville	\$1.8
VCCS	Renovate North Campus, Virginia Western	\$8.5
VCCS	Add Geothermal Wells, Southside Virginia	\$0.4
VIMS	Replace Eastern Shore Seawater Laboratory	\$3.0
MFA	Upgrade Security System	\$1.8
SMV	Acquire new exhibits	\$0.5
FCM	Wetlands/Mill and Bowman House Site Improvements	\$0.4
JYF	Construct Jamestown Commemorative Plaza	\$0.7
JYF	Replace Jamestown Ships	\$1.0
DCR	Construct Road, Cabins and Campground at Andy Guest Park	\$3.8
DCR	Construct Visitor Center, Staff Residences, and Offices at Mason Neck Park	\$1.1
VMNH	Construct exhibits for new museum facility	\$2.0
DCJS	Construct Driver Training Facility	\$10.0
DOF	Construct Abingdon Shop and Cold Storage	\$0.6
DOF	Construct Grayson and Carroll County Area Office	\$1.1
DGS	Construct Addition to War Memorial for Public Education	\$3.5
CA	Construct Performing Arts Center	\$30.0