

Governor Northam's Proposed 2020-22 Biennial Budget and Amendments to the 2018-20 Budget

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Outline

- Orientation to the 2020 Session
- Virginia's budget outlook...what happened?
- Overview of Governor's Budget Proposals
- Concluding Thoughts

Orientation to the 2020 Session

2019 Session (Looking Back)

- **The General Assembly finished on time!**
- **How to address revenue windfall from the federal Tax Cuts and Jobs Act?**
 - Provided significant tax relief (with time-limited revenues)
- **What about spending priorities?**
 - Fully funded the Medicaid forecast
 - Enhanced salary increases for state employees, state-supported locals, and teachers
 - Boosted general fund revenue reserves
- **It was an election year!**

Orientation to the 2020 Session

Review of Tax Policy Changes

2019 Session (Looking Back)

- More than \$1.5 billion in tax relief was provided in fiscal years FY 2019-2022.

SB 1372/HB 2529	Tax Type	Fiscal Year - Preliminary Revenue Impact (\$ in millions)			
		2019	2020	2021	2022
Increase SD to \$4,500/\$9,000	Individual Income Tax		(\$359.7)	(\$235.7)	(\$236.9)
SALT and SD \$4,500/\$9,000 compared to SD to \$4,500/\$9,000	Individual Income Tax		(\$55.6)	(\$41.7)	(\$46.7)
Allow a subtraction for up to 20% of the disallowed net interest deduction (effective TY 2018, assumes no add-back)	Individual Income Tax	(\$2.0)	(\$1.8)	(\$1.8)	(\$2.1)
Total Individual Income Tax	Individual Income Tax	(\$2.0)	(\$417.1)	(\$279.2)	(\$285.8)
Allow a subtraction for up to 20% of the disallowed net interest deduction (effective TY 2018, assumes no add-back) -Corporate Income Tax	Corporate Income Tax	(\$22.6)	(\$16.2)	(\$16.9)	(\$17.6)
Allow a GILTI subtraction (effective TY 2018)	Corporate Income Tax	(\$7.1)	(\$5.4)	(\$5.5)	(\$5.8)
Total Corporate Income Tax	Corporate Income Tax	(\$29.7)	(\$21.6)	(\$22.4)	(\$23.4)
SB 1372-Impact		(\$31.7)	(\$438.7)	(\$301.5)	(\$309.2)

Revenue to be transferred to the Taxpayer Relief Fund in Fiscal Year 2019 and in the General Fund through 2022.		\$500.5	\$5.2	\$165.2	\$183.3
Estimated Cost of the Refunds to be Issued in October, 2019: Non-refundable credit equal to \$110/\$220 for single/married taxpayers; effective only for TY 2018 for taxpayers who file by July 1, 2019		-	(\$431.0)		

Orientation to the 2020 Session

What we were thinking this summer

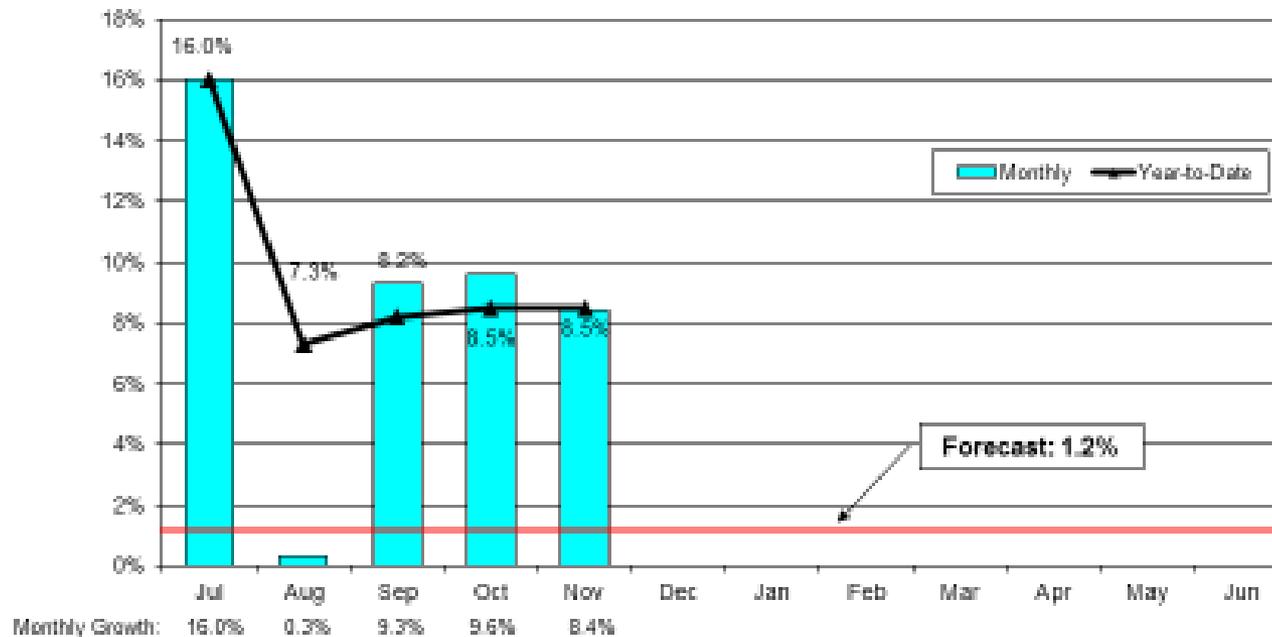
- **Perception that the Commonwealth is awash in revenue.**
 - We finished FY 2019 with a large surplus – almost \$800 million.
 - But most of the extra revenue was anticipated.
 - TCJA revenues
 - Nonwithholding (i.e., estimated tax payments)
- **Will general fund revenue growth be enough to fund current obligations?**
 - Revenues from withholding and sales taxes appear to be slowing.
 - Revenue growth of 3 to 4 percent may generate \$1.5 billion for the 2020-22 biennium.
 - How much will it cost to fully-fund the Medicaid forecast or Rebenchmark the Standards of Quality?
- **We're now in the longest economic expansion in history.**
 - Can it continue?
 - Warning signs have started to flash.
 - The stock market is on a roller coaster ride.
- **Will the federal government be in a position to help states if the economy slows down?**
 - The federal debt exceeded \$22 trillion this year.
 - Will the federal government even want to help?

Orientation to the 2020 Session

What actually happened – Revenues came in strong

- Perception that the Commonwealth is awash in revenue.

Fiscal Year 2020 Year-to-Date Revenue Collections Through November



- Total general fund revenues increased 8.4 percent in November.
 - Broad-based growth in payroll withholding, sales, and recordation tax collections.
- On a year-to-date basis, total revenues increased 8.5 percent, ahead of the annual forecast of a 1.2 percent increase.

Orientation to the 2020 Session

What actually happened – Medicaid spending slowed

- **Will general fund revenue growth be enough to fund current obligations?**
 - Yes.
 - We're currently projecting a balance of \$563.0 million at the end of this fiscal year.
 - Continued strength in general fund revenue growth -- 4.3 percent in FY 2021 and 3.6 percent in FY 2022 – will help meet current obligations.
 - Projected Medicaid spending on health and long-term care services for pregnant women, children, the elderly, and disabled is less than expected.
 - Freed up more \$200 million in GF spending in FY 2020.
 - Lower GF forecast ripples through biennial budget.
 - Even with slightly higher K-12 rebenchmarking figures, there are sufficient revenues to fund many of the Governor's priorities.

Orientation to the 2020 Session

What actually happened – a mixed bag

- **We're now in the longest economic expansion in history.**
 - Can it continue? *It has but slower growth is anticipated.*
 - Warning signs have started to flash.
 - The stock market is on a roller coaster ride. *Stocks finished strong!*
- According to the second estimate, real GDP **grew** at an annualized rate of 2.1 percent in the third quarter of 2019, up from 2.0 percent in the second quarter.
- Payroll employment **increased** by 266,000 jobs in November and gains for September and October were revised higher by a combined 41,000.
- The national **unemployment rate fell** to 3.5 percent in November.
- Initial **claims for unemployment fell** by 10,000 to 203,000 during the week ending November 30.
- The Conference Board's **index of consumer confidence fell** 0.6 points in November to 125.5. Expectations rose, while the current conditions index fell.
- The Conference Board's **index of leading indicators fell** 0.1 percent in October following a revised decline of 0.2 percent in September.
- Conditions in the **manufacturing sector contracted** in November. The Institute of Supply Management index fell from 48.3 to 48.1.

Orientation to the 2020 Session

What actually happened – stay tuned...

- **Will the federal government be in a position to help states if the economy slows down?**
 - The federal debt exceeded \$22 trillion this year.
 - Will the federal government even want to help?

Fall Budget Development

- **While the official budget process began in late August...**
 - ... the Secretary of Finance led efforts this summer to review a subset of state agency budgets.
 - Department of Behavioral Health and Developmental Services (DBHDS)
 - Department of Corrections (DOC)
 - Department of Housing and Community Development (DHCD)
 - Department of Environmental Quality (DEQ)
 - We also made numerous site visits during 2019 to better understand the Commonwealth's operating and capital needs.
- **During the budget process we asked agencies to scour their budgets for projected savings.**
 - We will likely revisit that process in the fall of 2020
- **If we can free up even 1% of current general fund spending, that's \$240 million each year.**

Goals of the Governor's budget

Strengthen fiscal integrity by increasing reserve balances, improving fiscal liquidity, and maintaining structural balance

Fund mandates, commitments, and core services

Invest to expand Virginia's economy by:

- strengthening Virginia's educational system
- investing in broadband and workforce development
- maintaining our commitment to economic development

Improve citizen quality of life through:

- expanding access to healthcare, maternal health, behavioral health services, child welfare, and housing assistance
- improving infrastructure with investments in water quality and clean energy
- enhancing public safety, election security, and emergency preparedness

Caboose Bill Actions (FY2018-20 Biennium)

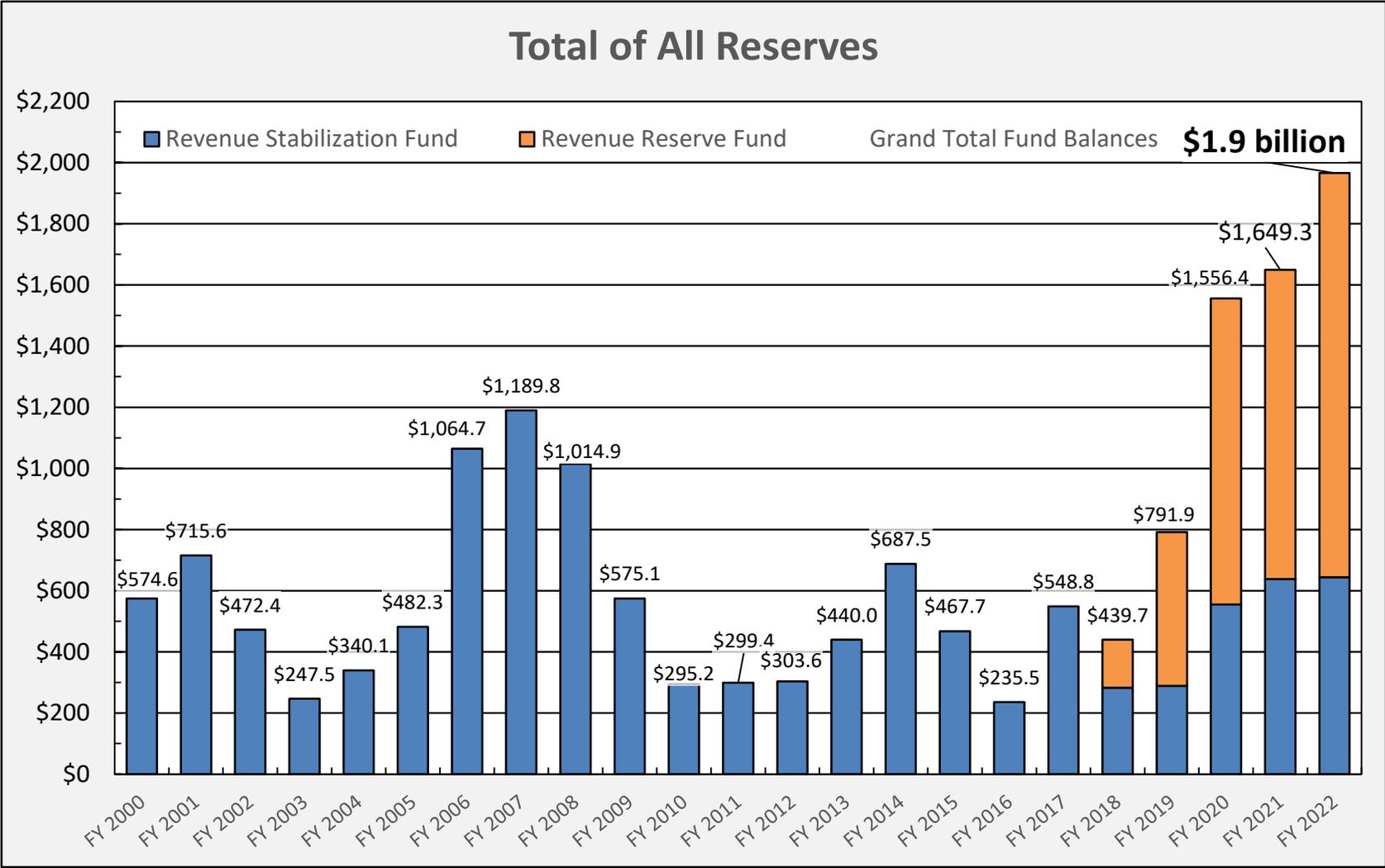
- 24 amendments increase general fund spending by \$376.2 million. Examples include:
 - \$270.8 million voluntary deposit to the Revenue Reserve; and
 - \$21.1 million due to enrollment increases in K-12.
- 15 amendments decrease spending by \$396.5 million. Examples include:
 - \$211.7 million reduction in projected spending on Medicaid; and
 - \$44.4 million from the Virginia Health Care Fund that is used as general fund match for the Medicaid program.

The combined impact is a net decrease in operating spending of \$20.4 million, compared to the current biennial budget (Chapter 854).

The Governor proposes net new “spending” of \$4.0 billion from the general fund for the 2020-22 biennium

- 331 amendments totaling \$4.7 billion increase general fund spending including:
 - Updates to K12 education for Standards of Quality re-benchmarking and enrollment increases;
 - Updates to Medicaid utilization and inflation;
 - ***Deposits to the Revenue Stabilization Fund and the Revenue Reserve;***
 - New education investments for school counselors, early childhood, teacher salaries, and “G3”; and
 - Revisions in funding for other forecast-based expenditures, core services, and priority needs as well as technical transfers.
- 56 amendments totaling \$720.2 million decrease general fund spending including:
 - Savings from increases in transportation revenues to offset general fund expenses;
 - Savings from increases in tobacco tax revenues to offset general fund expenses in Medicaid, which allowed the establishment of a health reinsurance program; and
 - Realization of savings associated with VITA’s new service provider model as well as technical transfers.

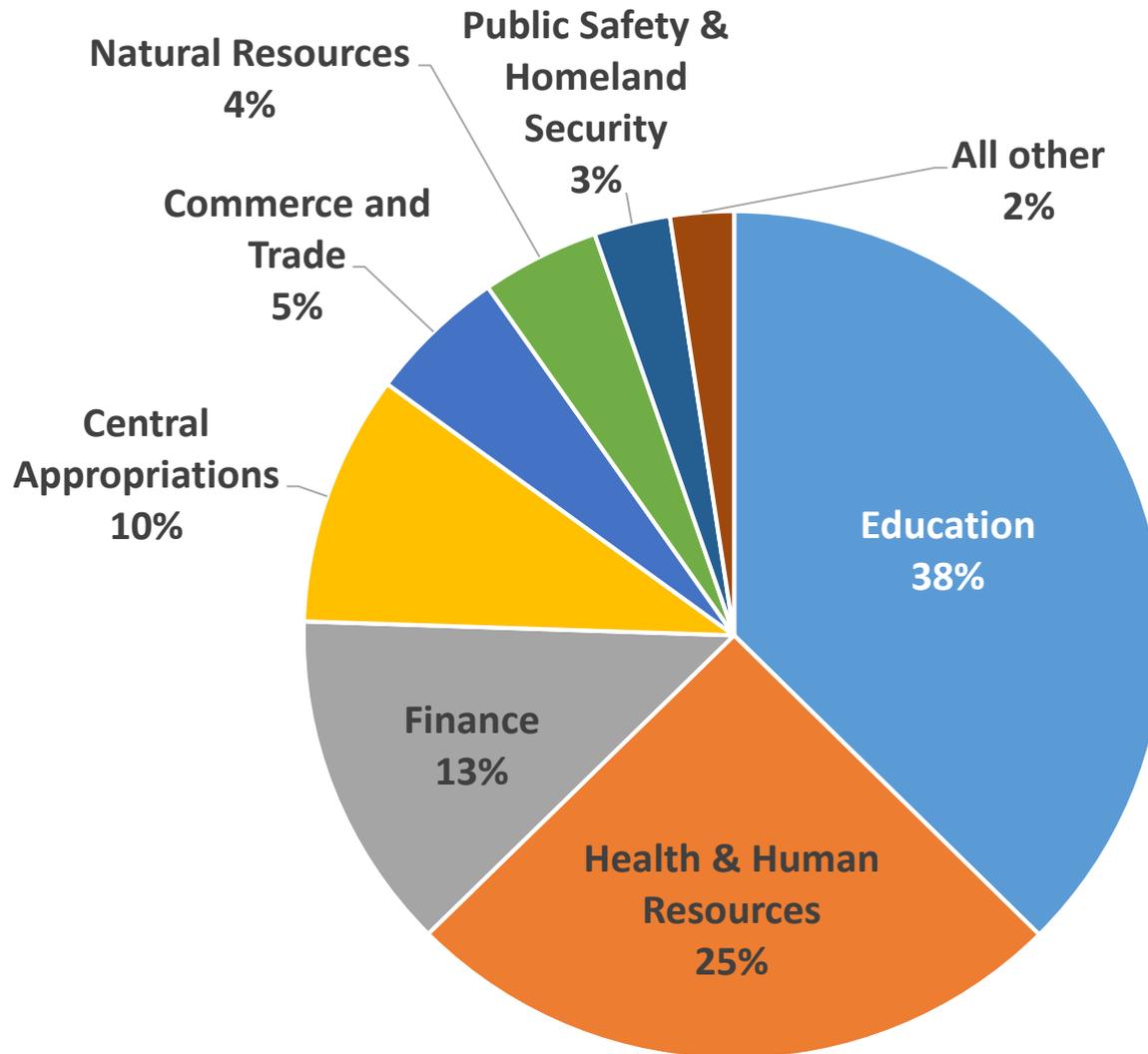
By the Close of FY 2022, Total Reserves Are Estimated To Be **\$1.9 Billion**, Exceeding 8% of Total Revenues



The Governor's budget includes \$17.5 million in FY2022 as a reserve for a potential mandatory deposit to the Revenue Stabilization Fund in FY2023.

More Than One-Third of New Spending Targeted to Education

Governor's Proposed 2020-22 Biennial Budget



K-12 Public Education – *\$1.3 billion GF increase*

- **K-12 highlights include:**

- **\$808.5 million** to update the state cost of Direct Aid to Public Education for the 2020-2022 biennium. Funded across 18 separate amendments that address changes in enrollment, fringe benefits, composite index data, sales tax, prevailing cost data, and other technical revisions supporting Standards of Quality and other related education programs.
- **\$145.1 million** to increase salaries for funded Standards of Quality instructional and support positions by 3.0 percent, effective July 1, 2021.
- **\$99.3 million** for additional school counselors. The first amendment provides \$42.6 million for the school counselor staffing ratios authorized in the Standards of Quality by the 2019 General Assembly and a second amendment provides \$56.7 million to lower the standard to one school counselor per 250 students in grades kindergarten through 12.
- **\$94.7 million** to maximize pre-kindergarten access for at-risk three- and four-year-old children, to attract and retain early childhood educators in hard-to-serve preschool classrooms, and to increase pre-kindergarten classroom observations and teacher professional development.
- **\$52.6 million** to support educationally at-risk students. Additionally, \$87.8 million of Lottery Per Pupil payments are reallocated to the At-Risk Add-On program. The per pupil allocation is backfilled with \$125.0 million from “Games of Skill” revenue.

Higher Education and Other Education – ***\$261.2 million GF increase***

- **Higher Education and Other Education highlights include:**
 - **\$145.1 million** to implement the “G3” program, which provides the full cost of tuition, fees, and books for students with a family income less than 400 percent of the federal poverty line enrolled in select pathways at two-year colleges.
 - **\$45.4 million** for need-based financial aid for in-state undergraduate students spread to each of the institutions of higher education by separate amendments.
 - **\$22.0 million** to support in-state enrollment growth and increases in transfer students at Old Dominion University.
 - **\$22.0 million** to support in-state enrollment growth and increases in transfer students at George Mason University.
 - **\$15.0 million** to support cancer research at Massey Cancer Center.
 - The remaining amendments provide a total increase in spending of \$67.7 million, which is offset by the transfer of \$56.0 million from the Virginia Research Investment Fund to the new Virginia Innovation Partnership Authority for a total **net increase of \$11.7 million.**

Health & Human Resources – *\$1.0 billion GF increase*

- **Health & Human Resources highlights include:**

- **\$675.0 million** for the most recent forecast of increases in Medicaid costs. \$2.2 billion of nongeneral fund appropriation is also provided.
- **\$80.2 million** for the FAMIS program to address increases in the forecast expenditures and to reflect the loss of enhanced federal matching dollars as the CHIP match rate decreases from 76.5 percent to 65 percent in federal FY 2021.
- **\$68.3 million** for the Children's Health Insurance Program to fund the latest forecast and reflect the loss of enhanced federal matching dollars as the CHIP match rate decreases from 76.5 percent to 65 percent in federal FY 2021.
- **\$56.6 million** to continue the implementation of STEP-VA by adding funds for outpatient services, veterans services, peer support services, mobile crisis teams, and a hotline.
- **\$49.8 million** from the general fund and **\$15.9 million** in nongeneral funds to fund local departments of social services to hire staff and in response to the federal Family First Prevention Services Act (FFPSA).
- The remaining amendments in Health and Human Resources total **\$96.2 million**, which reflects the substitution of the tobacco tax revenue (Health Care Fund) for general fund in Medicaid.

Finance – ***\$528.9 million GF increase***

- **Finance highlights include:**

- **\$300.0 million** for a voluntary deposit to the Revenue Reserve Fund. With this deposit, the combined balance of the Revenue Reserve Fund and the Revenue Stabilization Fund will exceed eight percent of FY 2022 general fund revenue from income and sales tax.
- **\$171.7 million** for increased debt service on bonds issued by the Virginia Public Building Authority and the Virginia College Building Authority.
- **\$94.9 million** for actual and projected mandatory deposits to the Revenue Stabilization Fund.
- **\$2.4 million** to support 14 new field auditor positions in the Department of Taxation.
- **\$1.4 million** to support the addition of eight worker misclassification auditors in the Department of Taxation.
- The remaining amendments in Finance result in a **net savings of \$41.5 million**, which includes replacing general fund support with transportation revenues for debt service payments for the Northern Virginia Transportation District and the Oak Grove Connector project.

Central Appropriations – ***\$390.9 million GF increase***

- **Central Appropriations highlights include:**
 - **\$200.0 million** for uncommitted contingencies that may arise over the biennium.
 - **\$146.0 million** for a reinsurance program intended to stabilize the rates and premiums for health insurance policies in the individual market and providing greater financial certainty to consumers of health insurance in the Commonwealth.
 - **\$66.6 million** for the employer share of state employee health insurance premiums.
 - **\$32.2 million** for the changes in employer contribution rates for state employee retirement. Funding is provided for the full contribution rates certified by the Virginia Retirement System Board based on the June 30, 2019, Virginia Retirement System valuation for 2021 and 2022.
 - **\$30.4 million** for the continuation of the Commonwealth's commitment to the Tech Talent Pipeline Fund.
 - The remaining amendments in Central Appropriations result in a **net savings of \$84.3 million** for the biennium due primarily to information technology savings.

Commerce and Trade – ***\$213.2 million GF increase***

- **Commerce and Trade highlights include:**
 - **\$56.0 million** for deposit to the Virginia Housing Trust Fund bringing state support for the trust fund to \$30.0 million in FY 2021 and \$40.0 million in FY 2022.
 - **\$32.0 million** to support the Virginia Telecommunication Initiative (VATI) bringing state support for the program to \$35.0 million in each year.
 - **\$16.0 million** to meet the requirements of the Advanced Shipbuilding Production Facility Grant Program.
 - **\$10.0 million** to establish a clean energy financing program consisting of a revolving loan fund and a loan loss reserve fund to support public and private sector projects.
 - **\$8.2 million** for the Special Workforce Grant Program to meet the requirements of the Special Workforce Grant Program established in Section 59.1-284.30, Code of Virginia.
 - The remaining amendments in Commerce and Trade total **\$91.0 million**, which includes the funds transferred from other entities to the new Virginia Innovation Partnership Authority.

Natural Resources – *\$181.4 million GF increase*

- **Natural Resources highlights include:**

- **\$47.0 million** for the mandatory deposit to the Water Quality Improvement Fund (WQIF) associated with the FY 2019 year-end surplus.
- **\$41.8 million** for a supplemental deposit to the Water Quality Improvement Fund (WQIF). Of the amount provided, \$39.6 million is designated for the Virginia Natural Resources Commitment Fund, a subfund of the WQIF, of which \$35.0 million is for the implementation of Agricultural Best Management Practices (BMP) and \$4.6 million is for the Soil and Water Conservation Districts to assist in the implementation of the BMPs.
- **\$31.0 million** for deposit to the Virginia Land Conservation Fund bringing total funding to \$20.0 million each year.
- **\$20.0 million** to support the Dam Safety, Flood Prevention, and Protection Assistance Fund.
- **\$11.7 million** to support positions, equipment, and contractual activities in air and water monitoring and compliance programs.
- The remaining amendments in Natural Resources total **\$29.9 million**.

Natural Resources – *\$367.0 million in bonds*

- **The introduced budget also includes significant funding for local water quality and supply projects including up to:**
 - **\$182.0 million** for the Stormwater Local Assistance Fund for grants to address:
 - new stormwater best management practices;
 - stormwater best management practice retrofits;
 - stream restoration;
 - low impact development projects;
 - buffer restoration; pond retrofits; and
 - wetlands restoration.
 - **\$65.0 million** for the Combined Sewer Overflow Matching Fund; and
 - **\$120.0 million** for Nutrient Removal Grants to address discharges in the Chesapeake Bay watershed.

Public Safety & Homeland Security – *\$116.8 million GF increase*

- **Public Safety & Homeland Security highlights include:**
 - **\$27.6 million** to expand treatment of Hepatitis-C-positive offenders in correctional facilities.
 - **\$14.7 million** for the Department of Corrections to address recruitment, retention, and salary compression issues by raising salaries of correctional officers, sergeants, captains, lieutenants, and majors.
 - **\$12.9 million** and 21 positions to implement an electronic healthcare records system in state correctional facilities. This funding will be added to \$7.0 million of existing base funding in DOC and \$6.0 million transferred from base funding in Central Appropriations.
 - **\$11.9 million** for pilot collaborations between the Department of Corrections and two university healthcare systems (UVA and VCU) to provide services for state-responsible offenders.
 - **\$9.5 million** for the Department of Corrections to cover projected increases in offender medical care costs.
 - The remaining amendments in Public Safety and Homeland Security total **\$40.3 million**.

Administration – ***\$40.4 million GF increase***

- **Administration budget highlights include:**
 - **\$5.6 million** to fund salary increases for regional jail officers consistent with those received by deputy sheriffs during the 2018 Special Session to equalize the pay grade for all entry level correctional officers in local and regional jails.
 - **\$5.0 million** to fully fund the reimbursement of general registrar and electoral board salaries to localities.
 - **\$4.9 million** to annualize the cost of operating the Prince William/Manassas Adult Detention Center jail expansion project. The expansion was approved in Chapter 665, 2015 Acts of Assembly.
 - **\$3.8 million** to adjust salaries of circuit court clerks to address pay equity with that of the district court clerk positions.
 - **\$2.8 million** to fund additional Assistant Commonwealth's Attorneys and support staff positions. This amendment will provide 29 positions to address workload demands across various offices in the Commonwealth according to the staffing standards of the Compensation Board.
 - The remaining amendments in Administration total **\$18.2 million**.

Judicial – ***\$31.5 million GF increase***

- **Judicial highlights include:**

- **\$9.5 million** to support 59 additional public defenders to address high caseload demands in offices across the Commonwealth.
- **\$5.6 million** to fund an additional 60 district court clerk positions to address workload demands in courts across the Commonwealth.
- **\$5.4 million** to cover the costs of opening and operating a public defender's office in Prince William County. This is partial start-up funding to support 35 positions, including support staff.
- **\$4.5 million** to fund the anticipated cost increases associated with providing constitutionally mandated legal defense for indigent persons accused of crimes (Criminal Fund) in General District Courts.
- **\$4.5 million** to fund the anticipated cost increases associated with providing constitutionally mandated legal defense for indigent persons accused of crimes (Criminal Fund) in Juvenile and Domestic Relations District Courts.
- The remaining amendments in the Judicial Branch total **\$1.9 million**.

Veterans & Defense Affairs – *\$8.3 million GF increase*

- Veterans & Defense Affairs highlights include:
 - **\$5.0 million** the first year to construct the Virginia Veteran's Parade Field at the site of the future National Museum of the United States Army. This appropriation will be matched with private funding.
 - **\$2.3 million** and three positions for an information technology system, mental health support positions, benefits positions, facility maintenance expenses, and salary increases for staff in the Northern Virginia region.
 - **\$1.0 million** over the biennium in additional tuition assistance funding that would be available under the State Tuition Assistance Program (STAP).

Agriculture and Forestry – *\$4.4 million GF increase*

- **Agriculture and Forestry highlights include:**
 - **\$1.0 million** to establish hardwood forest habitat program.
 - **\$0.9 million** to support the commercialization of industrial hemp in the Commonwealth.
 - **\$0.9 million** to achieve the state’s tree planting and forest conservation commitment in support of the Phase III Watershed Implementation Plan.
 - **\$0.5 million** for three positions to enhance the food safety inspection program.
 - **\$0.4 million** for two positions to enhance audit and verification of contractor-applicators of fertilizer to nonagricultural property.
 - The remaining amendments in Agricultural and Forestry total **\$683,238**.

Other General Fund Spending – *\$12.9 million GF increase*

- Other highlights include:

- **\$1.2 million** to fund the Office of the Chief Diversity Officer.
- **\$1.2 million** to fund the Office of the Chief Workforce Advisor.
- **\$1.1 million** to fund the cost of staffing and workload improvement measures in the Office of the Secretary of the Commonwealth.
- **\$9.4 million** in the Virginia Workers' Compensation Commission for forensic evidence collection and medical care of sexual assault victims.

In addition to the above spending, **\$80.0 million** in general fund appropriations are reduced from transportation to eliminate general fund support for the U.S. Route 58 Corridor Development Fund and replace it with support from the Commonwealth Transportation Fund.

Concluding Thoughts

- The Governor's proposed budgets are the first act of a multi-act play.
- The Governor will maintain an open door policy to listen to concerns about his proposals.
- Changes in leadership and staff positions in the General Assembly will translate to additional work for the Administration but also stakeholders.
- It's an election year...again!

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