

VACo Budget Analysis – FY 2011 and 2012

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Key Links:

[The Virginia Department of Education](#) released locality specific funding spreadsheets on March 18.

[The Compensation Board](#) released locality specific biennial funding spreadsheets on March 26.

[599 spreadsheets](#) show locality specific funding levels for FY 2010, FY 2011 and 2012. VACo also has linked [DCJS' 599 cover memo](#) of March 18.

[VRS biennial rates](#) as shown in the adopted FY2010-2012 biennial budget (Item [469](#) #3c).

The Virginia Department of Housing and Community Development released a model [PDC funding reduction spreadsheet](#) the week of March 15.

[House Appropriations Conference summary](#)

Please be advised that TAX has posted their [2011 estimates](#) on local distribution of

- 1) State Sales and Use Tax for Public Education
- 2) Local Option Sales and Use Tax
- 3) Recordation and Grantor's Tax

Note: funding levels and details are not final until the budget bill becomes law – after the Reconvened Session.

In December 2009, Gov. Timothy M. Kaine released his proposed [FY 2010-2012 \(HB 30\)](#) biennial budget and announced a biennial general fund revenue shortfall of \$4.5 billion. As part of his introduced budget, Kaine recommended eliminating annual state Car Tax reimbursements and replacing the annual appropriations with a new income tax surcharge. The General Assembly rejected his proposal and reinstated the existing Car Tax program, which required the legislature “to find” an additional \$1.9 billion.

The House and Senate agreed to the joint conference committee report to House Bill 29 (FY 2010) and House Bill 30 (FY 2010-2012) on the evening of Sunday, March 14. The House Appropriations and Senate Finance Committees have posted the [Conference Report for HB 29](#) and [Conference Report for HB 30](#) and both the [House](#) and [Senate](#) have provided summary documents. In adopting revisions to HB 30 (hereinafter referred to as the report), the General Assembly addresses Kaine’s announced revenue shortfall and includes new biennial fees totaling more than \$95 million.* Revenue offsets total more than \$53 million (for a net revenue increase of \$42 million).

Gov. Robert F. McDonnell’s February revenue forecast, referred to as the mid-session update, added \$63.9 million to the budget for FY 2011 and \$54.1 million for FY 2012. The report assumes biennial interest earnings of \$36.1 million and a biennial adjustment to the tax refund base of more than \$84 million. If revenue projections are unmet, Gov. McDonnell and the General Assembly may be forced to make “mid-year” reductions to FY 2011 expenditure levels. The General Assembly includes an FY 2010 un-appropriated balance of more than \$130 million.

*Examples of revenue offsets (new fees):

- Environmental Health Services Fee Increase: \$38 million each year
- DEQ Environmental Fees: \$2.5 million each year
- Driver’s License Reinstatement Fee (Trauma Fund): \$9 million each year
- \$4 for Life Increase (\$4.25 to \$6.25): \$12.6 million each year
- New Court Filing Fees: \$9.5 million each year
- Deed Recordation Fee Increase (\$10): \$9.1 million each year for Agriculture BMPs

Reconvened session and actions:

The General Assembly is scheduled to reconvene on Wednesday, April 21, to act on gubernatorial recommendations including vetoes and amendments. In accordance with the Constitution of Virginia, the governor may sign a bill into law, veto a bill or recommend amendments to a bill. The budget is a single bill. The governor also may propose line-item budget vetoes. The legislature acts on vetoes and amendments. Vetoes are overridden by a two-thirds vote, while amendments are adopted by a simple majority vote. If the Governor does not act on the bill, it shall become law without his signature.

Note: Funding levels and details are not final until the budget bill becomes law – after the Reconvened Session.

Public Education (K-12)

[The Virginia Department of Education](#) released locality specific funding spreadsheets on March 18. The link above directs the reader to details for FY 2010 and FY 2010-2012.

A 12-month analysis of state funding for public education (K-12) finds a 9 percent reduction, which is calculated by comparing the adopted FY 2010 state budget of a year ago to the new FY 2011 state budget. (Readers are reminded that Gov. Kaine reduced FY 2010 K-12 expenditures by approximately 4 percent in September 2010.) Several factors suggest that 9 percent does not reflect the state’s structural K-12 budgetary challenges. For example, federal stimulus funding helped to buttress FY 2010 expenditures (\$584 million) while modest federal stimulus funding (\$126 million) and state and local VRS “savings,” estimated at greater than \$850 million for the new biennium, help to support FY 2010-2012 expenditures.

FY 2010-2012 VRS Rates (Source: DOE):

	Final GA Conference	
	FY 2011	FY 2012
FRINGE BENEFIT RATES:		
Instructional / Professional Support VRS Retirement (Employer Share) (Does not include RHCC - see below)	3.93%	5.16%
Instructional / Professional Support VRS Retirement (Employee Share)	5.00%	5.00%
Instructional / Professional Support VRS Retirement Rate	8.93%	10.16%
Group Life (Employer Share)	0.28%	0.28%
Group Life (Employee Share)	0.00%	0.00%
Total Group Life Rate	0.28%	0.28%
Retiree Health Care Credit (Paid as part of the VRS per pupil amount)	0.60%	0.60%
Non-professional Support VRS Retirement	7.53%	7.53%
Social Security	7.65%	7.65%
Health Care Premium	\$3,375	\$3,375
Total Instructional / Professional Support Benefits Percent (Employer Share)	12.46%	13.69%
Total Non-professional Support Benefits Percent (Employee Share)	15.46%	15.46%

Note: The Group Life Employer Share of 0.28 percent is in dispute. It may be 0.33 percent (as represented in the Conference Report, [Item 469 #3c](#)). VACo will notify members of the final rate.

- **Rebenchmarking:** The report funds only technical biennial rebenchmarking costs totaling more than \$140 million. The state saved more than \$750 million in new biennial rebenchmarking costs last year by capping state support for administrative support positions.
- **Composite Index and Hold Harmless Funding:** The report reinstates the 2010-2012 composite index of local ability-to-pay. The report also provides \$116.5 million in FY 2011 (100 percent hold harmless funding) and \$57.6 million in FY 2012 (50 percent hold harmless funding) for all school divisions that experienced a reduction in state funding as a result of the composite index update.

- **Adjust Funded Health Care Premiums to Reflect Prevailing Division-Level Participation:** The report adjusts the state reimbursement for health care premiums to reflect actual participation. Therefore the new premium of \$3,375 represents the statewide prevailing average of the division level premiums weighted for plan type participation (\$5,107) multiplied by the prevailing rate of overall employee participation in any employer-provided health care plan (66.1 percent). Heretofore the state has recognized 100 percent of state recognized costs.
- **Eliminate VPSA Literary Fund Interest Rate Subsidy Program**
- **Modify SOQ to Include Zero Values in the Calculation of Prevailing Non-Personal Support Costs:** By including zeros in these calculations, the prevailing statewide averages for non-personal support costs are lowered thereby reducing the overall cost of the SOQ. [Non-personal factors include: Operation and Maintenance (Utilities, Communications, Insurance); Fixed Charges (Unemployment, Workers' Comp., Disability Insurance, Other Benefits); Instructional (Classroom Instruction, Instructional Support, Principal's Office); Miscellaneous (Administration, Attendance & Health, Facilities, Pupil Transportation, Reserve Contingency, Textbooks and Health Care Premiums.)]
- **Eliminate the Support for School Construction and Operating Costs Account and the Enrollment Loss Account**
- **Lottery Service Area:** The report moves support for two accounts, English as a Second Language and Remedial Summer School, from the General Fund to the Lottery.
- **Incentive, categorical, supplemental programs:** The report reduces biennial funding for certain incentive, categorical and supplemental education programs by 15 percent. Project Discovery is reduced by 25 percent.
- **Provide Temporary Flexibility for Staffing Requirements:** The report provides temporary flexibility by permitting an increase in specific pupil-teacher staffing ratio requirements. Pupil-teacher staffing ratios in kindergarten through grade seven, and English classes for grades six through 12 can be increased by one additional student. However, programs funded for Elementary Resource teachers, Prevention, Intervention, and Remediation, English as a Second Language, Gifted and Talented, Career and Technical are exempt from the increased staffing ratios. Further, the increased staffing ratio requirements are also waived for instructional and support technology position, librarian, and guidance counselor. This temporary flexibility does not apply to the K-3 Primary Class Size Program.
- **Restoration of the VPSA Education Technology Grant Program**
- **Increase Literary Fund Support for VRS Retirement:** The report uses \$13 million of Literary Fund balances in FY 2011 to pay a portion of the state share of cost for teacher retirement and Social Security. This increases the Literary Fund transfer amount to \$138 million in FY 2011.

- **Reduce Funding for Textbooks:** The report reduces textbook funding by approximately one-third in each year of the biennium. In addition, the adopted budget split funding for textbooks between the General Fund and the Lottery.
- **School Bus Replacement:** Extend School Bus Replacement Cycle from 12 years to 15 years.
- **Increase School Breakfast Funding:** The report increases the reimbursement rate for the School Breakfast program from 20 cents per meal to 22 cents per meal for each year of the biennium.

Compensation Board

The biennial reductions outlined below are compared to the FY 2010 budget adopted by the 2009 General Assembly last spring. In addition, one-time funding reductions are also outlined in Gov. Kaine's FY 2010 Budget Reduction Plan of [September 2009](#).

The Compensation Board budget estimates are provided through a link entitled "Budget Estimates" located on the [Compensation Board's](#) agency Web site. On the Web site, select your locality or regional jail, and then select the office estimate you wish to review. Each selection will provide you with an estimate of reimbursable expenses to be fixed for FY 2011 and information regarding the development of the estimated fund amounts provided. Because budget estimates represent revenue to be anticipated by localities for support of constitutional and appointed offices, projected reductions are shown at the reimbursable level at this time. Officers will receive additional information regarding implementation plans to achieve the reductions at the budgeted level, and will be asked to provide information for the formulation of final plans, prior to the Board establishing approved budgets on May 1, 2010.

Constitutional Officers: Summary

Sheriffs: Retains the law enforcement deputy sheriff staffing ratio of one deputy per 1,500 locality population. FY 2011 across the board reductions equal 6.8 percent.

Commissioners of the Revenue: FY 2011 across the board reductions equal 17.94 percent

Treasurers: FY 2011 across the board reductions equal 22.86 percent.

Circuit Court Clerks: FY 2011 across the board reductions equal 3.94 percent.

Commonwealth's Attorneys: FY 2011 across the board reductions equal 8.51 percent.

Directors of Finance: FY 2011 across the board reductions equal 28.76 percent.

State responsible inmates: Adjusts the definition of state-responsible offenders from felons with sentences of one year or more to felons with sentences of two years or more.

Constitutional Officers: Details

- **Career Development Programs:** The report provides biennial program funding of \$5.2 million to support current constitutional officer and employee career development programs (including Sheriffs' Accreditation and Certification, Master Deputy, Master Jail Officer, Career Prosecutor,

Master Commissioner, Master Deputy Commissioner, Master Treasurer, Master Deputy Treasurer). Funding is not provided for individuals participating as of Jan. 10, 2010.

- **Liability and Surety Bond:** The report provides for the recovery of 50 percent of liability and surety bond premiums paid on behalf of constitutional officers. The introduced budget required localities to contribute 100 percent of this premium.
- **VRS Retirement and Group Life Premiums:** The report restores reimbursement funding in FY 2011 and FY 2012 for VRS retirement and group life insurance premium amounts payable on reimbursed salaries of constitutional officers and their employees. The cost is \$30.8 million in each year.

Sheriffs and Jails

- **Staffing Ratio:** The report restores law enforcement deputy funding of \$12.6 million in FY 2011 and \$12 million in FY 2012 to support the staffing standard ratio of 1:1500. **Note:** Additional staff funding was not approved to fully support current staff needs, i.e. the current program is underfunded.
- **Sheriff and Regional Jail Funding:** FY 2011 across the board reductions equal 6.8 percent. The total appropriations not restored, including Byrne JAG funds, but excluding vacancy freeze savings, equal \$17 million in FY 2011 and \$16.1 million in FY 2012.
- **State Responsible Felons:** The report adjusts the definition of state-responsible offenders from felons with sentences of one year or more to felons with sentences of two years or more. The cost for this has yet to be determined.
- **Reductions in Per Diem Funding:** Reductions in per diem funding of \$19.5 million in FY 2011 and \$19.2 million in FY 2012 based on reductions to the per diem amounts paid for local responsible inmates housed in local or regional jails from \$8 per day to \$4 per day; for local responsible inmates housed in jail farms from \$22 per day to \$18 per day; for state responsible inmates housed in local or regional jails from \$8 or \$14 per day to \$12 per day; and the reduction of the additional \$14 per day currently paid for any inmates in contract beds by agreement with the Department of Corrections to \$8 per day.
- **Jail Operating Budgets:** The report restores \$10 million of general funds in each year for jail operations. The funding supplants \$23.3 million of Byrne JAG funding that was supplanting general funds in FY 2010.
- **Housing Pennsylvania Inmates Per Diem:** Additional per diem funding of \$1.56 million in FY 2011 and \$800,000 in FY 2012 is included to support the anticipated increase in inmate populations due to the potential housing of Pennsylvania inmates in Department of Correction facilities.
- **State Responsible Inmates:** Reductions in per diem funding of \$2.6 million in FY 2011 based on one-time savings due to language associated with the early release of state responsible inmates.

Commonwealth's Attorneys

- **Funding:** FY 2011 across the board reductions equal 8.51 percent. The total amount not restored, excluding vacancy freeze funds, is \$2.6 million in each year of the next biennium.

Circuit Court Clerks

- **Funding:** FY 2011 across the board reductions equal 3.94 percent. The report provides funding restoration totaling \$9 million in each year of the biennium. Total un-restored appropriation reductions, excluding vacancy freeze funds, is \$480,000 in each year.
- **Circuit Court Clerks:** Introduced budget bill proposals unchanged by the report.
- **Clerk Technology Funds:** Continuation of the use of an additional \$1.49 million (for a total of \$2.98 million) of non-general Technology Trust Funds to offset a reduction in Clerks' General Fund operating expenses and \$1 million to supplement Clerks' General Fund operating expenses.

In addition, language in the report provides for a line of credit in the amount of \$8 million for budgeting Technology Trust Fund cash in the year in which is it collected, beginning with FY 2011, to replace \$2 million in FY 2009 cash and \$7 million in FY 2010 cash collections, both to be reverted to the general fund at the end of FY 2010.

Treasurers

- **Funding:** FY 2011 across the board reductions equal 22.86 percent. The report provides for restoration of general funds totaling \$7.2 million in each year of the biennium.

Commissioners of the Revenue

- **Funding:** FY 2011 across the board reductions equal 17.94 percent. Total appropriations not restored, excluding vacancy freeze funds, is \$3 million in each year of the next biennium.

Directors of Finance

- **Funding:** FY 2011 across the board reductions equal 28.76 percent. The report provides for restoration of general fund reductions totaling \$4.6 million in each year of the biennium. Total un-restored appropriation reductions, excluding vacancy freeze funds, is \$1.6 million in each year of the next biennium.
- **Establishing Finance Office that assume duties of Treasurer and Commissioner of Revenue:** The report eliminates introduced language authorizing counties and cities to establish offices of finance intended to assume the duties of the offices of Treasurers and Commissioners of the Revenue.

Administration

- **Moving Compensation Board to Public Safety:** The report eliminates introduced language that moved the Compensation Board from under the authority of the Secretary of Administration to the Secretary of Public Safety.
- **SAVIN:** Restores funding of \$11,221 in each year provided to the Virginia Center for Policing Innovation in support of the SAVIN victim notification system in local and regional jails.

- **LIDS:** Restores funding of \$1.102 million in each year related to shifting a portion of LIDS system support costs to local and regional users.
- **Compensation Board Administration:** Introduced budget bill proposals unchanged in the report.
- **Salary and Positions:** Reduction of \$218,000 and 3 positions each year in elimination and consolidation of Compensation Board responsibilities.

Compensation and Retirement

- **VRS:** The report eliminates Kaine’s proposal that current state employees in VRS pay 1 percent and 2 percent of their member contributions in FY 2011 and FY 2012, respectively; and Kaine’s proposal to delay fourth quarter VRS payments to the next fiscal year (FY 2011 payments in FY 2012 and FY 2012 payments in FY 2013). Alternatively, the report identifies (a) savings assumed as a result of requiring new employees to pay the 5 percent employee contribution (HB 1189 and SB 232 – see below); and (b) savings resulting from lowering the Other Retirement Plan (ORP) contribution rate for new employees. These new savings result from the passage of HB 1189 and SB 232 as outlined below.
- **VRS “Savings:”** The report assumes substantial savings from reductions in payments into VRS programs including state employee retirement (“normal rate” both years), teacher retirement (normal rate in FY 2011 and normal rate plus 20 percent of unfunded liability in FY 2012). In addition to capturing the savings of \$850 million (noted above under K-12), the General Assembly established future savings with the passage of [HB 1189 \(Putney\)](#) and [SB 232 \(Watkins\)](#).
- **VRS Payback:** The report requires the repayment of the above “savings” to VRS over 10 years. The required payments are estimated to be \$74 million annually beginning in FY 2013.
- **Key provisions of HB 1189/SB 232:** [HB 1189 \(Putney\)](#) and [SB 232 \(Watkins\)](#) alter future retirement benefits. The provisions become effective on July 1 of this year assuming the governor enacts the legislation. The provisions, that are included in the budget, are summarized below:
 - Mandates that new state employees pay the 5 percent employee contribution.
 - Allows localities and school divisions the option of requiring their current employees to pay the 5 percent employee share or any portion of it. If the employer picks up less than 5 percent of the current employee contribution, all new employees are required to contribute the full employee contribution (5 percent). Localities and school divisions also have the option to require no current or new employee to pay the 5 percent employee contribution. Also, localities and school divisions are allowed a six-year phase in period to institute this new provision.
 - Possible Scenarios
 1. Localities and school divisions pay the 5 percent share for all employees (current and new).

2. Localities and school divisions require current employees pay any portion of the 5 percent employee share and this election triggers the mandate that all new employees pay the 5 percent share.

3. Localities and school divisions may continue to pay the 5 percent employee share for current employees and require all new employees to pay any portion of the 5 percent employee share.

- Maintains the benefit multiplier at 1.7 percent for all employees.
 - Increases from 36 to 60 the highest consecutive months for new employees.
 - For early unreduced retirement for new employees, replaces 50/30 provision for the regular VRS and establishes the “rule of 90:” Specifies that age plus years of creditable service must be greater than or equal to 90.
 - Links Normal Retirement Age to Social Security Normal Retirement Age with at least 5 years of service for new employees.
 - For new employees, rescinds the provision that allows employees to retire at 50/10 with an actuarial reduction. Current employees will still be able to retire with an actuarial reduction with 55/5. New employees, however, must be age 60 with 5 or more years of service for an early retirement.
 - New formula guarantees the first 2 percent of CPI plus the next 8 percent of any additional increase. COLA is capped at 6 percent.
 - Reduces the period of time from 3 years to 1 year in which a new employee may purchase service credit at a rate below the “actuarial equivalent cost.”
 - Increases the cost to purchase the service credit during the initial purchase period from 5 percent per year of service to “an amount approximating the normal cost” for the retirement benefit.
 - The effective date of the normal cost rates are Jan. 1, 2011. Anyone hired on or after July 1, 2010, but prior to Jan. 1, 2011, shall have his or her one-year period for purchasing service commence on Jan. 1, 2011.
- **VRS Group Life Insurance (GLI):** The report includes a GLI rate of 0.33 percent in FY 2011. In addition, the FY 2010 budget includes a fourth quarter GLI holiday. Again, participating localities also will benefit. The new Group Life rate is in dispute and can be referenced in the Conference Report, [Item 469 #3c](#). VACo will notify members of the final rate.
 - **Line of Duty Benefits:** The report transitions the Line of Duty benefit in FY 2012 from a fully state funded program to one paid by the employer. New premiums will be charged to state agencies and localities based on the number of employees potentially eligible to receive benefits under the program. The budget assumes that part of the funding for the benefits paid out in FY

2011 would come from cash borrowed from the VRS group life program. The new premiums will be collected from the affected employers beginning in FY 2012.

- **State Employee Bonus Pay:** The report provides for a one-time bonus payment equal to 3 percent of base pay on Dec. 16, 2010, for employees of the Commonwealth, except elected officials, who were employed on June 30, 2010. The one-time bonus payment is contingent on general fund revenue collections for FY 2010 exceeding the official FY 2010 revenue estimate contained in the 2010 Acts of Assembly by at least \$82.2 million. If general fund revenue collections for FY 2010 are less than \$82.2 million, the one-time bonus payment shall be prorated to a percentage of base pay for the general fund payroll that equates to the amount of excess revenues collected.

- **Transitional Severance Benefits for Local Governments (local option)**

Language contained in the introduced budget and adopted by the report provides a transitional severance benefit, under the conditions specified, to eligible city, county, school division or other political subdivision employees who are involuntarily separated from employment with their employer.

 - On his date of involuntary separation, an eligible employee with (i) two years service or less to the employer shall be entitled to receive a transitional severance benefit equivalent to four weeks of salary; (ii) three years through and including nine years of consecutive service to the employer shall be entitled to receive a transitional severance benefit equivalent to four weeks of salary plus one additional week of salary for every year of service over two years; (iii) 10 years through and including 14 years of consecutive service to the employer shall be entitled to receive a transitional severance benefit equivalent to 12 weeks of salary plus two additional weeks of salary for every year of service over nine years; or (iv) 15 years or more of consecutive service to the employer shall be entitled to receive a transitional severance benefit equivalent to two weeks of salary for every year of service, not to exceed 36 weeks of salary.
 - Transitional severance benefits shall be computed by the terminating employer's payroll department. Partial years of service shall be rounded up to the next highest year of service.
 - Transitional severance benefits shall be paid by the employer in the same manner as normal salary. In accordance with Va. Code, transitional severance benefits shall be allocated to the date of involuntary separation. The right of any employee who receives a transitional severance benefit to also receive unemployment compensation pursuant to the Code shall not be denied, abridged, or modified due to receipt of the transitional severance benefit; however, any employee who is entitled to unemployment compensation shall have his transitional severance benefit reduced by the amount of such unemployment compensation. Any offset to a terminated employee's transitional severance benefit due to reductions for unemployment compensation shall be paid in one lump sum at the time the last transitional severance benefit payment is made.
 - For 12 months after the employee's date of involuntary separation, the employee continues to be covered under the (i) health insurance plan administered by the employer for its employees, if he participated in such plan prior to his date of

involuntary separation, and (ii) group life insurance plan administered by the Virginia Retirement System pursuant to the Code or such other group life insurance plan as may be administered by the employer. During such 12 months, the terminating employer shall continue to pay its share of the terminated employee's premiums. Upon expiration of such 12-month period, the terminated employee shall be eligible to purchase continuing health insurance coverage under COBRA.

- Transitional severance benefit payments shall cease if a terminated employee is reemployed or hired in an individual capacity as an independent contractor or consultant by the employer during the time he is receiving such payments.
- All transitional severance benefits payable pursuant to this section shall be subject to applicable federal laws and regulations.

General Government

- **State Reductions in Aid to Localities:** The report captures general fund savings of \$60 million each year from state aid to local governments. The introduced budget eliminated the current biennial requirement for local governments to revert \$50 million a year in “local aid to the state.” However, the conference report reinstates the requirement for FY 2011 and 2012 and increases the yearly contribution by \$10 million a year for an annual total of \$60 million in FY 2011 and \$60 million in FY 2012.

Each county in the Commonwealth shall have “flexibility” in determining how it will implement the reductions. Each county can choose to (1) take the total savings out of one program included on the list provided by the Department of Planning and Budget (DPB), (2) reduce multiple state aid programs on a proportional basis or by a specified percentage reduction, or (3) reimburse the Commonwealth in aggregate for their share of the savings, thereby keeping the state aid programs at an unreduced level. Each locality may also use number 3 above in combination with 1 or 2. The governing body of each county shall make its selection and certify its choice to DPB, by Aug. 30, 2010. Within 10 days of receipt, DPB will review such certification for accuracy to ascertain that the required savings apportioned to the county are obtainable using the selection(s) submitted on the certification. Unless DPB finds a certification to include savings that are not obtainable or sustainable, the certification will be approved and implemented without further delay. In the event that a county has not submitted or obtained an approved certification by Oct. 1, 2010, DPB is authorized to withhold an amount equivalent to the savings apportioned to the affected county from the aid to local government programs that DPB determines are most discretionary and represent general purpose aid to the local government in question before DPB begins to withhold any funds from categorical grants serving a particular functional area or public service. DPB will notify the affected locality of the decision in this regard and the decision will remain in force unless it is superseded by the subsequent approval of a certification for the affected county after Oct. 1, 2010.

- **Distribution from Virginia Tobacco Settlement Fund:** The report adds language stipulating that at least \$1 million each year from the Fund (Virginia Healthy Youth Foundation) be used for obesity prevention. Language also is added requiring the Director of the Foundation to report on funding provided to local organizations regarding obesity issues.

Commerce and Trade

The FY 2011 and FY 2012 introduced budget proposed an increase of \$43.7 million in new spending. The increase was, in large part, due to the creation of a new agency known as Economic Development Incentive Payments. The agency will serve as a holding account for all economic development incentive funds. Included in the Economic Development Incentive Payments is \$23.6 million for the Governor's Development Opportunity Fund, \$20.3 million for higher education and job creation grants to Rolls Royce in Prince George County (aerospace engine manufacturing), \$5.5 million for Ignite Institute in Fairfax County (biotechnology project), \$5.4 million to Micron (semiconductor manufacturing) and \$3 million for SRI (drug research) in Harrisonburg. These initiatives were incorporated into the report.

Another highlight in the introduced budget was an appropriation of \$7.6 million in the Department of Housing and Community Development (DHCD) for homeless programs. The infusion of general funding will supplant lost Temporary Assistance to Needy Families (TANF) funds.

- **Planning District Commissions:** The budget reduces state support for Planning District Commissions on average by more than 25 percent. However, Cumberland, Hampton Roads, Lenowisco, Northern Virginia and Richmond PDCs experience greater than average reductions ranging from 30 percent to 50 percent. Please see the [PDC funding reduction spreadsheet](#).
- **Economic Development Incentive Payments:** In addition to the Economic Development Incentive Payments listed above, the following programs and funding levels contained in the introduced budget is contained in the report but additional funds were provided.
 - Governor's Development Opportunity Fund, \$23.6 million general fund: The report doubles the appropriation for the Governor's Opportunity Fund to \$24.2 million in the first year. The second year amount is reduced by \$6 million pending levels of balances remaining in the Fund at the end of the first fiscal year. Balances in the Fund do not revert to the general fund but are retained within the Governor's Development Opportunity Fund.
 - Governor's Motion Picture Opportunity Fund, \$100,000 general fund and \$750,000 non-general fund: The report increases the amounts projected from the digital media fee established pursuant to § 58.1-1731, Code of Virginia. It is estimated that the fee will generate \$400,000 each year for the Motion Picture Opportunity Fund.
 - Virginia Investment Partnership and Major Eligible Employer Grants: \$1.8 million general fund and \$7.8 million non-general fund; the report adopted funding contained in the introduced budget.
 - Base Realignment and Closure: \$15 million general fund. The report eliminates \$7.5 million in FY 2012 for purchases of property to mitigate encroachment around the Oceana U.S. Navy Master Jet Base but allows proceeds from the sale or lease of properties acquired by these funds to be used for future property acquisitions.
 - Expand Use of Governor's Opportunity Fund (GOF): Report language allows up to \$5 million of unclaimed/unused funds to be used by Prince George County for site improvements for the Rolls Royce project.

- **Gov. McDonnell’s “Jobs Initiative:”** The report also made several adjustments to support the governors “Jobs Initiative” program.
 - **DBA and EDP Merge:** Secretary of Commerce and Trade will examine the potential to merge the Department of Business Assistance and the Economic Development Partnership, and report the findings to the Governor's Commission on Government Reform and Restructure established by Executive Order 2 (2010) and the Chairmen of the House Appropriations and Senate Finance Committees.
 - **MEI:** Funding of \$5 million of non-general fund resources in FY 2011 will be available for the Major Employment and Investment (MEI) Project Site Planning Fund established pursuant to legislation adopted by the 2010 General Assembly for an economic development project in Southside.
 - **Local Match for GOF:** Expanding the content of the report on the uses of the Governor's Opportunity Fund to include an accounting of any decision to waive the local match requirement authorized pursuant to legislation adopted by the 2010 General Assembly.
 - **Biofuel Production:** Fulfills the Commonwealth's commitment to a company that selected Virginia for the location of the nation's first barley ethanol production facility. This \$170 million investment, which is the largest alternative energy project in Virginia, will produce 65 million gallons per year of alternative fuel and is on schedule to be completed in June 2010. The Commonwealth directed funding from the Virginia Biofuel Production Fund as an economic development incentive to locate in the City of Hopewell. Funding for this commitment was not included in the introduced budget.
 - **Department of Business Assistance:** The report increases funding contained in the introduced budget (\$11.1 million) by \$5 million in FY 2011. Language stipulates that \$1 million is provided in the first year for the DBA Loan Guarantee Program, \$500,000 in each year of the biennium for the Business One-Stop Program and \$3.5 million in the first year for the Virginia Jobs Investment Program at the Department of Business Assistance.
 - **DHCD:** The report removes \$250,000 from the introduced budget each year that was directed toward a program initiated in FY 2009 to provide foreclosure counseling services across the Commonwealth.
 - **Virginia Economic Development Partnership:** The report directs the VDEP to investigate the feasibility of developing a satellite site of the Center for Advanced Manufacturing in the Shenandoah Valley.
 - **Expansion of Commonwealth Trade Markets:** The report provides \$1.5 million over the biennium to support expanding the Commonwealth's trade with India and China, expand the state’s presence in Western Europe, and assist small businesses to enter the export market.
 - **Marketing Campaign:** The report increases funding contained in the introduced budget by \$5 million over the biennium to implement a national and international advertising

campaign and to market Virginia through the Virginia Economic Development Partnership.

- **Tourism:** The report provides an additional \$3.6 million each year in additional funding to promote tourism across the Commonwealth.

Health and Human Resources

The governor's introduced budget for FY 2011 and 2012 provides a net general fund increase in HHR spending of \$1 billion. Almost all new spending will be used to restore funding for Medicaid that was supplanted in FY 2010 with federal Medicaid funding. This funding was adopted in part by the report.

The report also requires the Secretary of Health and Human Resources to examine options and incentives for workload efficiencies and report the findings to the Governor's Commission on Government Reform and Restructure and the Chairmen of the Senate Finance and House Appropriations Committees.

- **Child Advocacy Centers:** The introduced budget reduced statewide funding for centers by 5 percent (\$50,000) in FY 2010 and another 5 percent (\$50,000) beginning FY 2011. The cumulative reduction is 10 percent from the approved FY 2010 budget. The report retains these reductions, but replaces language in the introduced budget allocating funding for child advocacy centers between accredited and developing centers. Funding is also allocated to Children's Advocacy Centers of Virginia, the recognized chapter of National Children's Alliance for Virginia's child advocacy centers, to assist and support the centers.
- **Comprehensive Services Act (CSA):** The introduced budget contained reductions of \$36.6 million in each year of the biennium due to lower caseloads and less expenditure growth. Also reflected in the introduced budget was a reduction in each year for mental health services for high risk children. TANF funding for the CSA Trust Fund was eliminated in the introduced budget, as was the "hold harmless" clause for residential services. The report reduces CSA funding another \$2 million in FY 2011 due to a reduction in caseloads, bringing total reductions to \$38.6 million. The report also increases the local share of Medicaid-funded residential services provided under CSA similar to non-Medicaid residential services beginning July 1, 2011, resulting in a \$4 million savings to the state.
- **Aging:** The introduced budget reduced funding by \$1.4 million in each year for community based service providers, transportation services, adult daycare, personal care, care coordination and homemaker services. The reductions percentages contained in the introduced budget for FY 2011 and 2012 are compared to the approved 2010 budget for: (a) community based service providers – 15 percent reduction and (b) transportation, adult daycare, personal care, care coordination and homemaker services – 4.7 percent reduction. The Respite Care Grant Program was also suspended in the introduced budget. The report adopts these reductions and reduces an additional \$0.168 million from the general fund each year for care coordination services provided to the elderly. The report adopts language requiring the Department of Social Services to work with 18 Area Agencies on Aging (AAAs) that receive funding for care coordination to determine the best models to use for care coordination. It allows AAAs to submit a plan describing the model of care coordination to be used and requires the agencies to work with the

Department to ensure that the plan embraces best practices, works with other service delivery systems and includes evaluation measures. The Department and designated AAAs are required to determine which models of service delivery are appropriate and demonstrate beneficial use of these funds.

- **Deaf and Hard of Hearing:** The introduced budget reduced funding by \$93,000 each year for an 18 percent reduction in local outreach contracts for FY 2011 and 2012. Also reduced in the introduced budget was the general fund share of the Technology Assistance Program. It is replaced with non-general fund revenues. The report adopts these reductions and also earmarks \$434,000 each year from the Communications Sales and Use Tax Trust Fund for the Technology Assistance Program to provide communications devices for individuals who are deaf or hard-of-hearing.
- **Health Department:** The introduced budget proposed health funding reductions of \$7.8 million in FY 2011 and \$7.9 million in FY 2012 through a combination of strategies. These strategies include reductions to community service providers, administrative efficiencies, program reductions or eliminations and non-general fund revenue sources. Several budget reductions in the introduced were adopted by the report and are as follows.
 - Supplant general funds for environmental health services with increased fee revenues
 - Supplant general fund for Office of Chief Medical Examiner with increased Vital Records fee. This fee was eliminated in the report and \$2.5 million general funding in FY 2011 was restored.
 - Supplant general funds for the Office of Licensure and Certification with additional fee revenue. This fee revenue was eliminated in the report and \$400,000 general fund is restored in FY 2011.
 - Establish fee structure for Marina Program and Shellfish Sanitation Program. This fee revenue was eliminated in the report and \$214,000 general fund was restored in FY 2011.
 - Transfer balance of funds from Trauma Center Fund to the general fund.
 - Reduce funding for free clinics by 10 percent. The report restores \$331,900 from the general fund each year for free clinics that was reduced by 10 percent in the introduced budget.
 - Eliminate funding for local health district laboratories.
 - Eliminate funding for local health department pharmacies.
 - Eliminate funding for local health district.
 - Eliminate funding for case management OB service projects.
- **Office of Minority Health and Public Health Policy:** Additionally, the report reduces funding (\$120,000 in FY 2011 and \$149,000 in FY 2012) for various administrative activities within the

Office of Minority Health and Public Health Policy including administration, health care workforce management, information technology support and program support technician.

- **CHIP:** A reduction of \$843,000 from the general fund in FY 2012 for the Comprehensive Health Investment Project (CHIP) of Virginia was approved in the report.
- **Drinking Water Projects:** The introduced budget increased spending on drinking water projects by \$2.6 million in each year of the biennium but the report eliminates the increase. These additional general funds were added in 2006 to offset reductions in federal drinking water funding, but Virginia recently received an additional \$20.8 million from the American Recovery and Reinvestment Act for drinking water construction projects. This reduction does not affect the Commonwealth's required general fund match for the federal drinking water program funds.
- **State Police Med-Flight/\$4 for Life program:** The report increases the annual vehicle registration fee known as "\$4 for Life" from \$4.25 to \$6.25. The additional \$2 fee is expected to generate \$12.6 million annually. Out of the fee increase, \$2.1 million will be transferred to the Department of State Police for med-flight operations. Additionally, another \$10.5 million in FY 2011 and again in FY 2012 will be transferred from the special emergency medical services fund to the Department of State Police for med-flight operations, eliminating the need to transfer funds from the Rescue Squad Assistance Fund for those operations.
- **Medical Assistance Services:** The report approved numerous reductions and eligibility standards for programs participating in Medicaid funded services. Language is added to restore funding if Congress passes a six-month extension of increased Federal Medical Assistance Percentage (FMAP) through June 30, 2011. The programs affected by the FMAP restoration provision include:
 - Eligibility for the FAMIS and FAMIS Moms program from 200 percent to 175 percent in fiscal year 2012.
 - Eliminates an automatic inflationary increase in the medically needy income limits in FY 2012.
 - Applies new parameters to the use of environmental modifications and assistive technology. Currently, an individual can receive up to \$5,000 for environmental modification and assistive technology. The report reduces the limit to \$3,000 per project.
 - Reduces funding of \$7.1 million each year to the Virginia Commonwealth University Health System and the University of Virginia Health System for indigent health care costs.
 - Language will restore \$449,000 from the general fund and \$567,000 from the non-general fund in FY 2011 and \$522,000 from the general fund and \$522,000 from the non-general fund from federal Medicaid matching funds in FY 2012 for long-stay hospitals.

- Language will restore \$431,000 from the general fund and \$544,000 from the non-general fund in FY 2011 from federal Medicaid matching funds to delay a proposal to eliminate Medicaid coverage of podiatry services that was included in the introduced budget.
- Reduces payments to out-of-state hospitals treating Virginia Medicaid recipients by reimbursing these hospitals at the same rate their states pay Virginia hospitals for serving children from that state. Hospitals whose Virginia Medicaid days make up 12 percent or more of their total Medicaid days are not subject to the reduction.
- Reduces funding for inpatient hospital rates paid through the Medicaid program by 3 percent the first year and 4 percent the second year.
- Reduces payments for outpatient hospital services provided through Medicaid by 3 percent the first year and 4 percent the second year.
- Language is added to reduce the operating payment rate for nursing homes by 3 percent each year and capital payments by 0.25 percent the first year and 0.5 percent the second year.
- Reduces funding by 3 percent the first year and 4 percent the second year for physicians and other practitioners delivering Medicaid-funded services.
- Reduces funding by 3 percent the first year and 4 percent the second year for dental services funded through Medicaid.
- Reduces the dispensing fee paid to pharmacists by 25 cents effective July 1, 2011.
- Reduces income eligibility under Medicaid for the aged, blind and disabled to 75 percent of poverty level in the second year. Currently, aged, blind and disabled individuals are eligible for Medicaid if they have income up to 80 percent of poverty level.
- Adjusts funding for Medicaid to reflect a 4 percent rate reduction for auxiliary grant payments. Reducing the auxiliary grant payment rate has the effect of reducing enrollment in Medicaid.
- Reduces eligibility for the SSI eligibility group from 275 to 250 percent of SSI. The introduced budget reduces eligibility on Jan. 1, 2011, from 300 to 275 percent of SSI.
- The introduced budget included several reductions to Medicaid home- and community-based waiver services including a 5 percent reduction in provider rates, a reduction of respite care from 720 to 240 hours per year, and a freeze on the reallocation of community-based waiver slots.
- Reduces Medicaid funding for residential psychiatric facilities by 3 percent the first year and 4 percent the second year.
- The introduced budget included several reductions to Medicaid home-and community-based waiver services including a freeze on adding new slots not specifically related to the down-sizing of Southeastern Virginia Training Center or other state facilities. Report

language provides an exception for the addition of 250 community-based waiver slots for individuals with intellectual disabilities if Congress passes the FMAP extension.

- The report reduces the general fund by \$593,000 and increases federal Medicaid funding by a like amount by requiring the Department of Medical Assistance Services to retain 5 percent of the federal Medicaid matching reimbursed to school divisions for medical and transportation services for administrative costs of processing billing for localities.
- Reduces Medicaid funding for mental health therapeutic day treatment by 3 percent in fiscal year 2011 and 4 percent in fiscal year 2012.
- **Medicare Part D "Clawback:"** The report reduces the general fund share of the Commonwealth's required Medicare Part D "Clawback" payment to reflect a recent decision by the federal government to apply the enhanced federal match to the payment. This one-time action results in general fund savings of \$85.7 million in FY 2011.
- **ID Waiver Slots:** The introduced budget proposed reducing funding of \$500,000 general funds in each year and reducing census beds by 32. Language contained in the report adds 15 Intellectual Disabilities (ID) waiver slots each year for residents of Southeastern Virginia Training Center (SEVTC) who are being discharged into the community. Funding is already included in the budget for individuals transferring out of SEVTC.
- **Commonwealth Center for Children and Adolescents (CCCA):** The CCCA is a 48-bed mental health treatment facility in Staunton. The introduced budget proposed closing the facility over the biennium for a general fund savings of \$9.1 million exclusive of a \$2.1 million set aside for private inpatient mental health services for children. In order to prevent the closing of the facility, the report restores \$5 million from the general fund and \$1.8 million from non-general funds in FY 2011 and \$8.3 million from the general fund and \$1.8 million from non-general funds in FY 2012.
- **Southwestern Virginia Mental Health Institute (SWVMHI):** The introduced budget proposes closing SWVMHI by June 30, 2010, for a state savings of \$2.1 million over the biennium. The facility is a 16-bed unit that treats adolescent children with acute mental illness. The report adopted the initiative.
- **Local Social Services:** The introduced budget proposed a one percent reduction for local social services operations over the biennium, with a net savings for the state of \$1.2 million general funding in each year. The conference report adopts the reduction contained in the introduced budget and further reduces financial assistance for local social services departments by an additional \$1.6 million in FY 2011 and an additional \$4.6 million in FY 2012. Report language is added, however, to eliminate the FY 2011 and FY 2012 reductions if Congress passes the FMAP extension.
- **Assisted Living Facilities:** The report reduces the rates paid to assisted living facilities under the auxiliary grant program by four percent in FY 2012. The report also reduces funding in Medicaid based on this provider rate reduction which has the effect of reducing eligibility in Medicaid. Language is added to restore funding if Congress passes the FMAP extension.

- **Chore and Companion Services:** The report reduces funding by \$1 million each year for chore and companion services provided through the Social Services Block Grant. Language contained in the Conference Report transfers these funds to Child Welfare Services, supplanting general fund dollars in that program. Language is added to restore funding the first year if Congress passes the FMAP extension.
- **Other Purchased Services:** The report reduces funding by \$1 million each year for social services purchased through local departments of social services, termed "other purchased services." Language is added to restore funding the first year if Congress passes the FMAP extension.
- **SSBG Supplanting:** The report supplants \$1 million each year from the general fund with federal Social Services Block Grant (SSBG) funds. Language in the Conference Report transfers these funds from Adult Programs and Services. Additionally, language is added to restore the first-year general fund reduction and reverses the SSBG transfer if Congress passes the FMAP extension.
- **Child Welfare Services:** The report reduces funding by \$3 million in Child Welfare Services. Language is added to restore the first-year reduction if Congress passes the FMAP extension.
- **General Relief Program:** The report reduces \$2.4 million from the general fund each year to the General Relief program. Language is added to restore funding if Congress passes the FMAP extension.
- **Healthy Families of Virginia:** The introduced budget proposed \$1.4 million in FY 2011 and \$4.9 million in FY 2012 general funds to offset TANF reductions in Healthy Families of Virginia. Healthy Families provides home-visiting services for high risk families in Virginia. The report reduces \$1.4 million in FY 2011 and \$2 million in FY 2012 from the increased allocation in the introduced budget.

Additionally, the introduced budget phased out federal TANF funding for the program and restored general fund support. In the report, Healthy Families of Virginia will receive \$3.6 million from the federal TANF block grant in FY 2011 and \$2.9 million from general funds in FY 2012. Language is added to restore general funding the first year if Congress passes the FMAP extension.

Public Safety

The introduced budget for public safety decreased the general fund appropriation by 10.3 percent less than the approved FY 2010 budget. The introduced budget supplanted general funding in local law enforcement, courtroom security, HB 599 and state police counter-terrorism with non-general funds from the Virginia Public Safety Fund. Kaine's Virginia Public Safety Fund would have been established with a new tax on casualty insurance premiums. The General Assembly rejected Kaine's proposal to establish the new fund, and the report restored many of these items with general funds.

- **HB 599 – Police Department Funding:** The report increases funding for state aid to localities with police departments (the House Bill 599 Program) by \$22.2 million in FY 2011 and \$10.2 million in FY 2012 from the general fund. The FY 2011 appropriation equates to only a 1.2 percent reduction from the current year. The introduced budget reduced funding by \$40.9

million in FY 2011 and \$47.6 million in FY 2012, which represented a 27 percent decrease. [See 599 spreadsheet.](#)

- **ABC Offices:** The introduced budget provided that \$15 million in non-general funds be appropriated each year to reflect anticipated increase purchases from authorizing five new stores while assuming a 2 percent increase markup in alcoholic beverages. The report compliments the introduced budget and provides an additional \$4.5 million each year and 30 positions each year from non-general funds to open up to 15 additional ABC stores.
- **State Responsible Felons:** The report adjusts the definition of state-responsible offenders from felons with sentences of one year or more to felons with sentences of two years or more. The cost for this has yet to be determined.
- **Inmate Medical Expenses:** The introduced budget authorized \$4.7 million in FY 2012 for inmate medical expenses. This general funding was eliminated in the report.
- **Law Enforcement Training:** The report eliminates \$50,000 each year from the general fund for training of law enforcement officers and other first responders in managing persons with Alzheimer's disease or other memory-related impairments that were included in the introduced budget.
- **CASA:** The introduced budget reduced funding for the Court Appointed Special Advocate (CASA) program by 13.5 percent. This represented a \$218,000 reduction each year in addition to \$145,000 reduction in FY 2010. The report reduced an additional \$61,904 each year from the general fund. The cumulative reduction in this grant is 23.3 percent, when compared to the appropriation as adopted by the 2008 General Assembly.
- **VJCCCA:** The introduced budget reduces state aid to localities for the Virginia Juvenile Community Crime Control Act by \$2.5 million each year from the general fund. This reduction was adopted by the report.

Libraries

- **Public Libraries:** The introduced budget incorporated Kaine's September 2009 reductions to public libraries and reduced funding by 10 percent or \$1.7 million each year. The report reduces aid by an additional 5 percent or \$800,000 each year, bringing the total reduction for public libraries to 15 percent or \$2.5 million in each year.

Elections

- **General Registrar Salaries:** The introduced budget reduced assistance for General Registrar salaries by 10 percent from the approved FY 2010 budget. The report reduced assistance by an additional ten percent in both FY 2011 and 2012. The total reduction of \$1.4 million in the report represents a 20 percent reduction from the approved FY 2010 budget.

- **HAVA:** The introduced budget reduced non-general funds by \$5.5 million in FY 2011 and \$6.1 million in FY 2012 to reflect depletion of Help America Vote Act (HAVA) funds. This reduction was adopted by the report.

Agriculture and Forestry

- **Weights and Measures Inspections:** The report removes authorization in the introduced budget for the establishment of a new \$17.50 per year per device fee and \$2.1 million non-general fund appropriation. The report, however, adds the option of private sector inspectors that are licensed by the Department of Agriculture and Consumer Services to complete the required annual inspections and report the results to the Department.
- **VT Cooperative Extension Services:** The report reduces funding by \$1 million from the general fund in FY 2012 and requires a report by the Extension Service concerning their strategic planning process, restructuring and consolidating local offices.
- **PDR programs:** The report removes \$300,000 from the general fund each year that was directed to matching grants to localities with purchase of development rights programs.
- **Forest Fire Protection Fee:** Unchanged by the report is the appropriation in the introduced budget of \$500,000 in both FY 2011 and 2012 from fee revenue. This fee is charged to localities for forest fire protection and suppression services pursuant to legislation adopted by the 2008 General Assembly ([HB 1115, Abbitt](#)).

Natural Resources

The governor's introduced FY 2011 and FY 2012 budget decreases general funding for Natural Resources by \$21.2 million offset by new proposed spending of \$13.6 million. This represents a 3.9 percent decrease in spending compared to the approved 2010 budget. These reductions and proposed spending initiatives were approved in part by the report and are as follows:

- **Agricultural Best Management Practices:** The new spending, \$10 million in general funds included in the introduced budget, is for the implementation of agricultural best management practices, funded through an increase of \$10 in the Recordation Fee. The report included this new fee.
- **Water Quality Agreement Program:** The report continues the Water Quality Agreement Program which protects the waters of the Commonwealth through voluntary cooperation with lawn care operators across the state.
- **Virginia Land Conservation Fund:** General fund support for the Virginia Land Conservation Fund was reduced by \$500,000 in each year by the report. Since the introduced budget provided \$1 million in each year, this represents a \$1 million reduction.
- **State Parks:** The introduced budget proposed reduction strategies in state park visitor services by \$2 million in each year. The report adds back \$500,000 each year from the general fund to

support state park visitor centers and facilities as part of the Governor's Economic Development tourism promotion efforts.

- **Land Conservation Foundation:** The introduced budget provided \$1 million each year in general funds for the Foundation, which was previously funded at \$2 million each year prior to federal ARRA supplanting. The report provides for the removal of the cap on Land Preservation Tax credit (LPTC) transfer fees. Fee revenues, projected to be \$2 million in each year, will be proportionally distributed by the Foundation to public and private entities based on the number of easements held under the LPTC program for monitoring and enforcement of easement restrictions.
- **Waste Management Board:** The report requires the Waste Management Board to adopt regulations ensuring the total fees collected from operators of waste management facilities are sufficient to cover at least 58 percent, but no more than 100 percent, of the direct costs associated with processing permit applications. Fee revenues will defray costs associated with inspection and enforcement of permits.

Additionally, the Board must adopt regulations to cover all direct costs associated with DEQ's program for regulating hazardous waste management programs. A new fee schedule, exempt from the Administrative Process Act requirements, is projected to result in general fund savings of \$1 million in each year and raise \$250,000 in non-general fund revenues. The new fee schedule will be in effect FY 2011.

- **State Water Control Board:** The report requires the State Water Control Board to revise its fee schedule to assure at least 39 percent, but no more than 100 percent, of the direct costs associated with administration, compliance and enforcement of the Virginia Pollutant Discharge Elimination System and the Virginia Pollutant Abatement programs are covered by the fee.
- **Virginia Marine Resources Commission:** The introduced budget provides \$2 million in non-general funding in each year for oyster replenishment efforts. Additionally, the report added \$600,000 in general funding to the Virginia Marine Resources Commission for replenishment efforts.

Additional Revenue Issues

- **Communications Sales and Use Tax:** -Appropriates the Virginia Communications Sales and Use Tax Fund: "1. In order to carry out the provisions of § 58.1 - 645 et seq., Code of Virginia, there is hereby appropriated a sum sufficient amount of non-general fund revenues estimated at \$460,000,000 in the second year equal to the revenues collected pursuant to § 58.1 - 645 et seq., Code of Virginia, from the Virginia Communications Sales and Use Tax. For the purposes of the Comptroller's preliminary and final annual reports required by § 2.2-813, Code of Virginia, however, all deposits to and disbursements from the Fund shall be accounted for as part of the general fund of the state treasury. 2. All revenue received by the Commonwealth pursuant to the provisions of § 58.1 - 645 et seq., Code of Virginia, shall be paid into the state treasury and deposited to the Virginia Communications Sales and Use Tax Fund and distributions from the Fund shall be made pursuant to § 58.1-662, Code of Virginia."

Summary of the above action: The General Assembly will appropriate the fund to the Department of Taxation. The Department will reimburse localities based on the current statutory formula. However, the state will treat the dollars as general funds for purposes of expanding its debt capacity.

The report also earmarks \$434,000 each year from the Communications Sales and Use Tax Trust Fund for the Department of Deaf and Hard of Hearing's Technology Assistance Program. The program provides telephonic communications devices for eligible individuals. Since its inception, the Fund has supported the Department's contract to operate the state's relay center in Norton, but the report includes the requirement that the fund support equipment purchases for the program.

- **Dealer Discount:** HB 29 and report partially eliminates retailers' Dealer Discount (vendor compensation) for collecting and remitting the sales and use tax. Kaine proposed eliminating retailers' Dealer Discount entirely which would have saved \$61 million the first year. The report saves \$49 million by protecting a portion of the compensation for certain retailers. The amendment is included in HB 29 although it impacts FY 2010-2012.
- **Manufacturers' deduction allowed for domestic production activities:** One-third reduction of the manufacturers' deduction allowed for domestic production activities saving the state \$30 million over the biennium.

Judicial

- **Courthouse Repairs:** The report continues the suspension of the authority of circuit courts to enter orders requiring localities to repair or replace court facilities if they are deemed out of repair. This language was included in Chapter 781, the 2009 Appropriation Act but missing from the introduced budget.
- **Court Appointed Counsel for Juveniles:** The report eliminates funding for court appointed counsel for individuals confined in juvenile correction facilities. House Bill 483 and Senate Bill 585 of the 2010 Session would have authorized the appointment of counsel for individuals confined in juvenile correction facilities, but these bills were not enacted and the funding is therefore not needed.
- **Vacant Judgeships:** The report realizes savings of \$3.9 million in FY 2011 and \$6.5 million in FY 2012 from deferring the replacement of vacant judgeships.

Urban Development Areas (UDAs)

The report removes the requirement in the introduced budget that in awarding grants for new or expanded transit service priority be given, among other criteria, to projects within UDAs. Also removed by the report is the requirement that state-funded passenger rail service not serve any locality that has not designated the area around their train station as a UDA. Retained by the report were provisions that i) DEQ cannot award Water Quality Improvement Fund grants after July 1, 2011, to localities required to

designated UDAs but have not yet done so by that date; and ii) VDOT may give higher priority in awarding planning grants to localities that designate UDAs.

Transportation

- **Elimination of planning grants:** The report removes language dedicating a portion of transit capital funding for land use planning and development grants. Kaine proposed the grant allowance using funding authorized under the Commonwealth of Virginia Transportation Capital Projects Revenue Bonds debt obligation from House Bill 3202 (2007).
- **Transit Operating Funding:** The report provides the Commonwealth Transportation Board the flexibility to temporarily dedicate up to 20 percent of transit capital improvement funds to transit operating grant funds.
- **Unused VDOT facilities:** The report directs the Secretaries of Transportation and Administration, along with the impacted agency heads, to conduct an assessment of unused VDOT facilities to determine which could be used or leased, and requires a report to be submitted by Oct. 1, 2010.

Wireless E-911 Fund

Currently the FY 2010 budget transfers \$9.7 million from the Wireless E-911 Fund to support sheriff dispatchers. HB 29 and the report increase the annual transfer from the Fund by \$2 million for FY 2010 - FY 2012. Thus, annual support for sheriff dispatchers will total \$8 million and the State Police will receive \$3.7 million.

Joint Legislative and Audit Review Commission (JLARC)

The Conference Report named two studies for JLARC review:

- **VITA:** Continue to provide ongoing oversight of Virginia's information technology outsourcing arrangement using the same model currently utilized by JLARC for ongoing review of the Virginia Retirement System.
- **TICR:** Evaluate and report on the performance of the Tobacco Indemnification and Community Revitalization Commission (TICR), including a review of the effectiveness of the economic revitalization grants of the TICR, an evaluation of the TICR economic revitalization strategy, and propose recommendations as to the TICR's outcome metrics and accountability measures.

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