

Capitol Contact

Virginia General Assembly

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Money Committees Release Budgets

On February 5, the House Appropriations and Senate Finance Committees met to present their respective budget proposals. The [House Appropriations Committee](#) and [Senate Finance Committee](#) released the full text of their budget amendments on February 7, and the full House and Senate will vote on their respective budgets on February 9. Traditionally, the next steps in the budget process are that each chamber will reject the other's budget and budget conferees will be appointed to begin negotiations on a conference report.

While neither committee directly increased the official revenue estimates, both added resources to the general fund budget through policy adjustments and nongeneral fund transfers to the general fund.

The Senate Finance Committee added \$73.2 million General Funds (GF) primarily by increasing the tax amnesty program revenue estimate by \$31.3 million; increasing available ABC profits by \$15.7 million; and providing additional transfers from nongeneral fund sources (such as \$5.9 million from the Emergency Medical Fund, \$3.9 million from the Trauma Center Fund, and \$3.1 million from the UVA/MCV teaching hospitals). The House Appropriations Committee added \$81.1 million in GF resources primarily by using \$43.4 million in nongeneral fund VRS payments by higher education institutions and teaching hospitals for operating expenses; increasing available ABC profits by \$20.4 million; and reverting \$10 million in capital planning funds and other miscellaneous balances and transfers.

The House also spent down the \$16.1 million introduced budget unappropriated balance to \$1.9 million, while the Senate left \$14.5 million. The Senate also sets aside a \$40 million unspent revenue reserve. In addition, the Senate budget contains language that diverts 50 percent of any statutorily undesignated year-end revenue surplus for deposit to the Rainy Day Fund.

Below is a preliminary overview of the key elements in both budget proposals of interest to local governments. As was reported in the days leading up to the budget release, both the House and Senate have sought to make employee compensation a priority, but differ in their approaches to teacher salary increases. VACo staff will review the text of budget amendments and will provide more details as the budget process continues.

Salary increases for state employees and state-supported local employees

- House Appropriations: Eliminates Governor's proposed bonus and instead provides for a three percent salary adjustment for state employees effective July 10, 2017, and a two percent salary adjustment for state-supported local employees effective August 1, 2017.
- Senate Finance: Eliminates Governor's proposed bonus and instead provides for a three percent salary adjustment for state employees, effective July 10, 2017, and a two percent salary increase for state-supported local employees, effective August 1, 2017.

Salary increases for teachers

- House Appropriations: Does not provide specific appropriation for teacher salary increase. However, repurposes Governor's proposed bonus payment funding (\$55.5 million) and adds \$6.1 million GF to increase the lottery per-pupil allocation that is sent back to school divisions to a total of \$218.7 million. School divisions may use these funds for salary increases at their discretion.
- Senate Finance: Redirects proposed bonus payment (\$55.5 million) and approximately \$28 million from the supplemental lottery per pupil allocation set aside for FY 2018 in the budget as passed in 2016 to provide the state's share of a two percent salary increase for SOQ instructional and support positions (\$83 million). School divisions will qualify for the state funds if they certify that they have provided, or will provide, salary increases of an average of at least 2 percent during the biennium (either in the first or second year of the biennium or through a combination of the two years).

School Divisions with Declining Enrollment

- House Appropriations: Provides \$9 million GF in FY 2018 for financial assistance for smaller school divisions that have experienced declines in enrollment (eligible divisions must have less than 10,000 students and experience a ten percent decline in enrollment over the ten-year period between FY 2006 and FY 2016).
- Senate Finance: Provides approximately \$7 million in FY 2017 for additional state payments for school divisions with enrollment loss of 1.5 percent or greater

from the previous year. In order to receive the payment, school divisions must report strategies for managing the declining enrollment, such as sharing services with neighboring school divisions.

Virginia Retirement System (VRS) Teacher Plan

- House Appropriations: No change to expedited phase-in of employer contribution rates.
- Senate Finance: No change to expedited phase-in of employer contribution rates.

Impact of federal legislation

- House Appropriations: Creates joint subcommittee to respond to federal legislation that would repeal or amend the Affordable Care Act, Medicaid, or the Children's Health Improvement Program (CHIP), and recommend actions to be taken by the GA to address the impact of such legislation. The joint subcommittee is also to provide oversight of the Virginia Medicaid program.
- Senate Finance: Similar language regarding the creation of the new joint subcommittee and its role with respect to potential changes in federal legislation. Does not include detailed House language regarding oversight of changes to Virginia's existing Medicaid program.

Local fiscal stress

- House Appropriations: Provides for \$500,000 in FY 2017 to be used at the discretion of the Secretary of Finance to address instances of local fiscal distress that have been documented prior to January 1, 2017. Requires Auditor of Public Accounts (APA) to set up a workgroup to develop a proposed "early warning" system for local fiscal distress. For localities falling within the parameters of fiscal stress to be determined by the workgroup, the APA is to notify the Governor and the money committee chairs in writing, outlining actions to be addressed by state intervention. The Governor may re-appropriate up to \$500,000 from unspent aid to local governments for technical assistance and intervention, after consulting with the money committee chairs about a plan for state intervention. Staff for an intervention plan may be provided by private sector sources. The governing body of a locality subject to an intervention plan must assist staff conducting the intervention, who will report to the Governor and the money committee chairs on the level of cooperation received.
- Senate Finance: Similar language. Senate version contains language providing for agreement by the governing body to cooperate with intervention prior to any expenditures from the re-appropriated reserve funding. Also includes language establishing a joint subcommittee to study local government fiscal stress,

including the disparity between city and county taxing authorities and local responsibilities for service delivery of state-mandated programs.

Mental Health

- **House Appropriations:** Provides \$3 million GF and matching \$3 million NGF to modify the income eligibility criteria for the Medicaid demonstration waiver program for adults with serious mental illness (which provides primary care, outpatient medical services, and prescription drugs) from 80 to 100 percent of the federal poverty level. (Appears to derive the \$3 million GF by repurposing funding for same-day access that was included in the Governor's budget.) Adds addiction and recovery services to the waiver program. Provides \$2 million for permanent supportive housing for individuals with mental illness.
- **Senate Finance:** Provides \$5 million for permanent supportive housing for individuals with mental illness. Directs the Department of Medical Assistance Services (DMAS) to research strategies for financing supportive housing through Medicaid. Also includes language directing a review of the adequacy of funding and effectiveness of the Local Inpatient Purchase of Services (LIPOS) Program, which funds inpatient psychiatric treatment.

Study of behavioral health care system

- **House Appropriations:** Provides \$500,000 for the Secretary of Health and Human Resources to prepare an implementation plan for the "financial realignment of Virginia's public behavioral health system." Local governments are to be consulted in the development of the plan. (Eliminates proposed gap analysis in introduced budget.)
- **Senate Finance:** Provides \$500,000 for the Joint Subcommittee to Study Mental Health Services in the Commonwealth in the 21st Century to contract for assistance in its work to assess and improve the delivery system for behavioral health. (Eliminates proposed gap analysis in introduced budget.)

Mental Health Screening in Local/Regional Jails

- **House Appropriations:** Eliminates \$4.2 million GF that was in the introduced budget to provide grants for mental health assessments in local/regional jails (legislation to require the screenings was tabled in House Appropriations).
- **Senate Finance:** Also proposes to eliminate this funding; the Public Safety Subcommittee Chairman's remarks suggest this funding is to be redirected toward other mental health services, but specific budget language is not yet available. Includes language directing the preparation of a report on the potential use of the Peumansend Creek Regional Jail as a mental health facility for state, regional, or local inmates.

Temporary Assistance to Needy Families (TANF)

- House Appropriations: Provides for 2.5 percent increase in TANF benefits statewide and \$90,000 GF/\$2.5 million NGF to revise the locality groupings, which would increase TANF benefits in localities with the lowest payments.
- Senate Finance: Provides \$90,000 GF/\$2.5 million NGF to revise the locality groupings.

HB 599 (Aid to Localities with Police Departments)

- House Appropriations: Reduces by \$551,000 each year to reflect lower assumed growth in GF revenues in FY 2017.
- Senate Finance: Does not appear to amend funding levels in introduced budget.

Go Virginia

- House Appropriations: Restores \$7.5 million in funding for the new Go Virginia local economic development initiative as follows: \$5.75 million for organization and capacity grants, \$1.75 million in grants for regional economic development and workforce projects.
- Senate Finance: \$7.5 million in funding for the new Go Virginia local economic development initiative as follows: \$5.85 million for organization and capacity grants, \$1.65 million in grants for regional economic development and workforce projects.

Enterprise Zone Program

- House Appropriations: Further reduces the Virginia Enterprise Zone Program by \$164,467 in addition to \$1.8 million in reductions included in the introduced budget.
- Senate Finance: Restores \$1.8 million in reductions to the Virginia Enterprise Zone Program.

Brownfield Restorations Program

- House Appropriations: No action.
- Senate Finance: Restores \$1.3 million in reductions to the Virginia Brownfields Restoration and Economic Development Assistance Fund.

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Amended ‘Stormwater’ bill unanimously passes House

VACo supported [HB 1774 \(Hodges\)](#), which passed the House on a 97-0 vote. As amended, HB 1774 authorizes a cooperative study facilitated by the Virginia Coastal Policy Center at William and Mary Law School. Under the bill, a work group will be convened by the Commonwealth Center for Recurrent Flooding Resiliency. Also included are representatives from the Virginia Institute of Marine Science, Old Dominion University, VDOT, DEQ, the Chesapeake Bay Commission, local governments, representatives from environmental groups and a few other stakeholders.

Very significantly, the substitute bill also delays from July 1, 2017 to July 1, 2018 the effective date of the comprehensive stormwater legislation that the General Assembly passed in 2016 (or 30 days after the implementing regulations are approved by the State Water Control Board, whichever is later).

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VACo Contact: [Larry Land, CAE](#)

Bill eliminating local vehicle license fees rejected

On February 2, [HB 2447 \(R. Marshall\)](#) was rejected by a House Transportation Subcommittee following the failure of any member to make a motion either in support or opposition to the bill. The measure would have eliminated local authority to impose local license fees for motor vehicles, trailers, and semitrailers. According to an assessment by the Commission on Local Governments, HB 2447 would have had a substantial [fiscal impact](#) on local governments. **VACo testified in opposition to the bill.**

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Senate passes agritourism ‘home rental’ bill

By a [31-9 vote](#), the Senate passed [SB 1491 \(Stuart\)](#), a bill that expands the definition of “agritourism activity” by including the rental of a single-family residence for a period of at least one week. **VACo opposes this measure** because it further reduces local land use regulatory authority.

Under legislation passed by the General Assembly in 2014, [HB 268 \(Orrock\)](#) and [SB 51 \(Stuart\)](#), localities were restricted from regulating any “agritourism activity” (as defined in [Section 3.2-6400](#) of the Code of Virginia) unless the operation has a “substantial impact upon the health, safety, or general welfare of the public.” Under the 2014 legislation, localities were also prohibited from requiring a special exception, special use permit or any “administrative permit” not required by state law.

SB 1491 has now been referred to the [House Agriculture, Chesapeake and Natural Resources Committee’s Agriculture Subcommittee](#).

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Fracking ‘trade secret’ bills moving through House but rejected by Senate ... so far

By a tie vote of 8-8, [SB 1291 \(Chafin\)](#) and [SB 1292 \(Chafin\)](#) were defeated in the [Senate Finance Committee](#) on February 2. These are related bills that establish “trade secret” status for chemicals used in the process of hydraulic fracturing or “fracking.” Both bills were rejected after contentious debate following testimony by Secretary of Natural Resources Molly Ward. She contended that both bills would impose a substantial fiscal impact upon state government.

Last week the House passed [HB 1678 \(Robinson\)](#) – as introduced, the identical companion measure to SB 1292 – by a vote of 59-37. A vote is pending on [HB 1679 \(Robinson\)](#), the companion measure to SB 1291.

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Key Dates for 2017 General Assembly Session

- **January 11:** General Assembly convenes at noon. Prefiled legislation must be submitted by 10 a.m.; this is also the last day to file bills dealing with the Virginia Retirement System or legislation creating or continuing a study.
- **January 13:** Budget amendments by General Assembly members must be submitted by 5 p.m.

- **January 20:** All bills must be filed by 3 p.m.
- **February 5:** The Senate Finance and House Appropriations Committees must report their respective budgets.
- **February 7:** Crossover (deadline for legislation to pass its chamber of origin)
- **February 9:** Deadline for each chamber to complete work on its budget
- **February 20:** Deadline for committee action on legislation
- **February 25:** Scheduled adjournment *sine die*
- **April 5:** Reconvened session to consider the Governor's amendments and vetoes