



Thursday, March 2, 2017

General Assembly Adopts Amendments to 2016-2018 Biennium Budget

The General Assembly adjourned *sine die* on Saturday, February 25, after adopting amendments to the 2016-2018 biennium budget by large margins (40-0 in the Senate and 96-1 in the House).

The primary task facing the legislature and the Governor in the development of the budget was the closure of a \$1.5 billion shortfall that developed last year as revenues failed to meet projections due to weakness in sales tax and withholding. In addition to the need to rebalance the budget, the General Assembly and the Governor made employee compensation a priority in their budget amendments, an issue that drew particular attention in summer 2016, when salary increases that were included in the biennium budget as passed by the 2016 General Assembly had to be rescinded. Since there was broad agreement on prioritizing salary increases, the budget conference committee negotiations were completed several days before the scheduled adjournment of the session.

In addition to state support for salary increases for state-supported local employees and teachers and support staff, the budget conference report also makes investments in mental health treatment, retaining some elements of the Governor's proposed package and redirecting others. The conference report also seeks to address two elements of financial uncertainty: local fiscal stress and potential changes to federal health care policy. The conference report sets up a process for state intervention in localities with troubled finances, and it creates a joint subcommittee to respond to potential federal actions, such as proposals to block-grant Medicaid or repeal the Affordable Care Act. The conference report also establishes a revenue cash reserve of \$35 million, plus any revenues generated by the tax amnesty program above those assumed in the budget. In

addition, half of any FY 2017 surplus dollars would also be placed in this reserve (after constitutional and statutory requirements are met, such as deposits to the Revenue Stabilization Fund and Water Quality Improvement Fund) to be used to offset reductions in general fund revenues.

Below is an overview of key elements of the conference report. The Governor now has the opportunity to make amendments to the budget as passed by the General Assembly; these amendments and any vetoes will be considered at the April 5 reconvened session.

Salary increases for state employees and state-supported local employees

- Conference Report: 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.
- Also provides \$3.3 million for participation in career development programs for constitutional officers and staff, effective August 1, 2017, as well as \$7.3 million to address salary compression for sheriff's deputies.

Salary increases for teachers

- Conference report: Redirects Governor's proposed bonus payment, along with additional GF, toward the state's share of a two percent salary increase for SOQ-recognized positions, effective February 15, 2018, and an increase in the lottery per-pupil allocation of \$34.1 million. Language amendment allows school divisions flexibility in the use of the lottery per-pupil funds. School divisions qualify to receive funds for the salary increase if they certify that they have provided, or will provide, salary increases of an average of at least two percent over the biennium (either in the first or second year of the biennium or through a combination of the two years).
- Information on specific allocations to school divisions may be found in [the state Superintendent's memorandum of February 28](#).

School Divisions with Declining Enrollment

- Conference report: Provides \$7.3 million GF in FY 2017 for small school divisions that have experienced a decline of five percent or more in average daily membership between 2011 and 2016. Eligible school divisions will receive a minimum allocation of \$75,000.

Virginia Retirement System (VRS) Teacher Plan

- Conference report: No change to expedited phase-in of employer contribution rates.

Impact of federal legislation

- Conference report: 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 and agencies in the Health and Human Resources secretariat.

Local fiscal stress

- Conference report: 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. If the APA makes a preliminary determination that a locality is in fiscal distress, based upon the early warning criteria, s/he must notify the local governing body, which may request that the APA conduct a review of factors such as debt, revenues, and expenses.
- If the APA determines that state assistance is needed, 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.
- Also directs the creation of a Joint Subcommittee on Local Government Fiscal Stress, which will review local responsibilities for service delivery, disparity in taxing authority between cities and counties, and savings opportunities from increased regional cooperation.

Children's Services Act

- Conference report: Directs money committee staff to facilitate a workgroup of state agency representatives to "examine the options and determine the actions necessary to better manage the quality and costs of private day educational

programs currently funded through the Children's Services Act." Transferring funding for private day placements from CSA to the Department of Education is one item for consideration by the workgroup, but the group is also to look more broadly at the issue, an approach for which VACo advocated during the session.

Mental Health

- Conference report: Provides \$5 million for permanent supportive housing for individuals with mental illness. Provides \$2 million GF and \$2 million NGF to expand 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. Adds addiction and recovery services to the waiver program. Provides \$6.2 million GF and \$1.3 million NGF for Community Services Boards to implement same-day access for individuals in need of services. Directs the Department of Housing and Community Development (DHCD) to develop and implement strategies for housing individuals with serious mental illness, to include Medicaid financing.

Study of behavioral health care system

- Conference report: Eliminates proposed gap analysis in introduced budget and instead provides \$250,000 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. Also provides \$250,000 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. Extends the Joint Subcommittee by two years, until December 1, 2019.

Mental Health Screening in Local/Regional Jails

- Conference report: Eliminates \$4.2 million GF that was in the introduced budget to provide grants and training for mental health assessments in local/regional jails. Language requires that inmates be screened for mental illness upon admission to a local or regional jail, using a scientifically validated instrument to be designated by the Commissioner of Behavioral Health and Developmental Services. The Compensation Board is to review jail staffing standards for the provision of mental health and medical treatment and evaluate the costs and benefits of requiring mental health assessments of inmates who screen positive for mental illness within 72 hours of the screening.

- Language is also included 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)

- Conference report: Provides for a 2.5 percent increase in TANF benefits statewide and provides \$90,000 GF/\$2.5 million NGF to revise the locality groupings, which would reflect changes in cost of living and increase TANF benefits in localities with the lowest payments.

HB 599 (Aid to Localities with Police Departments)

- Conference report: No change to funding levels in introduced budget or budget as passed by 2016 General Assembly (funding levels in 2016-2018 biennium budget as adopted by 2016 General Assembly provided an increase over the previous biennium).

Go Virginia

- Conference Report: Restores \$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

- Conference Report: Restores \$1 million of the \$1.8 million in reductions to the Virginia Enterprise Zone Program.

Brownfield Restorations Program

- Conference Report: Fully restores \$2.6 million in reductions to the Virginia Brownfields Restoration and Economic Development Assistance Fund.

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