GOVERNOR WARNER PRESENTS
AMENDMENTS TO 2004-2006 BIENNIAL BUDGET

RICHMOND - Governor Mark R. Warner today presented his proposed amendments to the 2004-2006 Biennial Budget during a joint meeting of the Senate Finance, House Finance, and House Appropriations Committees. The entire text of his remarks will be sent in a separate release and available on the Governor’s Website at www.governor.virginia.gov.

“Having restored Virginia’s financial stability, we now face the challenge of maintaining it over the long term,” Governor Warner said in his address to committee members. “The choices we make now - when times are better - will say as much about us as how we handle the tough times. We need to remain steadfast in the fiscally conservative, careful approach that we have followed over these past 35 months. It is an approach that we have embraced together, and it has contributed mightily to the rebounding economy we now enjoy.”

Governor Warner’s amendments to the 2004-06 Biennial Budget focus on four major objectives consistent with the priorities that the Administration and General Assembly have adhered to jointly over these past 35 months:

1) Maintaining fiscal responsibility and stability for the long term;
2) Promoting greater fairness in Virginia’s tax code;
3) Promoting activities that build a stronger, more competitive economy; and,
4) Meeting our basic commitments to education, health care, public safety, transportation, and other core services of government.

Revenues and Tax Policy

The higher revenue base from FY 2004 actual collections, incorporating the most recent data, and projections developed with the traditional guidance of economists and business leaders of continued economic growth in Virginia have led to a re-forecast of $918.7 million in additional revenue above what was budgeted last year.

“We will budget the additional projected revenue just like any prudent business would,” said Governor Warner. “We will use it for one-time expenses that are urgently needed or that represent smart investments in economic growth, new jobs, or a better quality of life for Virginians. We will make a “super deposit” to our Rainy Day Fund, speed up food tax relief for
all Virginians, and make innovative investments in our transportation system. We will use current revenues rather than issuing new debt for capital expenses.”

The budget proposes three significant tax policy changes:

1) Reducing the sales tax on food by 1.5 percent, effective July 1, 2005, rather than the .5 percent reduction now scheduled.

2) Conforming with the federal tax code as of December 31, 2004 (rather than December 31, 2003). This change simplifies tax filings for businesses, and passes on to Virginia businesses and individuals the benefits of the recent tax changes passed by Congress.

3) Return to transportation the 3 percent tax on rental vehicles which has traditionally been a revenue source for transportation. The fiscal impact of this change is -$23.3 million to the general fund in FY 06 and thereafter, but increases transportation revenues by an equal amount.

With these changes the additional general fund revenue available totals $789.7 million.

More than 80 percent of net spending that Governor Warner has proposed is one-time or mandated spending. No new tax-supported debt is proposed.

**Transportation**

Governor Warner’s proposed budget amendments would provide the largest cash infusion for transportation in many years. Additional funds totaling more than $824 million are provided for the following efforts:

- $140 million for the Private Partnership Revolving Fund;

- $256.4 million to eliminate deficits on projects which are complete but which would still require future construction allocations;

- $80 million for the Mass Transit Partnership Fund;

- $80 million for the Local Partnership Fund;

- $23.2 million for the Rail Partnership Fund;

- $97.4 million to address maintenance needs throughout the Commonwealth; and

- $147.0 million to flow through the state funding formula to the benefit of all modes of transportation.

Of the $824.0 million, $396.8 million comes from the general fund. The balance comes from state and federal transportation funds. The general fund includes:
- $350 million to repay transportation funds used to balance the general fund budget during the cumulative $6 billion budget shortfall. This is a one-time use of general fund revenues.

- $23.2 million from the 3 percent tax on rental vehicles which has traditionally been a source of transportation revenue. The Governor’s proposal dedicates this source for the Rail Partnership Fund; and

- $23.6 million to eliminate diversion of transportation revenues which over time have been used to support general fund activities.

**Public Education**

Provides a net increase of $48.8 million in general fund dollars for the biennium for K-12 education.

Adds $54.8 million to provide a 3.0 percent salary increase for all public school employees effective December 1, 2005.

Distributes $35.2 million due school divisions from additional lottery proceeds collected in FY 2004 and projected additional proceeds in FY 2005 and FY 2006.

Adds $19.6 million to address shortfalls in the public education accounts.

Provides $3.0 million for GED centers to increase the number of instructional classes, the frequency of testing, and the number of testing locations.

Adds $1.6 million to advance a school-based program to offer breakfast to students, as part of the Governor’s “Healthy Virginians” campaign.

Provides $0.2 million for a development component for the PASS program, in cooperation with the Virginia School Boards Association.

Earmarks an additional $20.0 million in Literary funds to address school construction projects on the Board of Education’s First Priority Waiting List - combined with the $5.0 million already included for FY 2006, will provide construction funding for as much as $200 million in projects for schools.

Reduces funding by $61.3 million due to lower than projected student enrollment.

Reduces appropriations by $18.1 million based on latest information on special education student counts, remedial statistics and scores, participation and non-participation rates in incentive-based accounts, and ELS, summer school and Governor’s school enrollment.

**Higher Education**

Provides $165.3 million for Higher Education operating and capital needs.
Adds $51.1 million to address the recent market escalation of construction costs associated with numerous previously funded capital projects.

Adds $26.7 million for equipment and furnishings in previously funded capital projects that will be completed in 2006.

Adds $32.0 million in additional general fund support to address the backlog of maintenance reserve needs at institutions of higher education.

Adds $12.2 million to recognize institutions that have absorbed significant enrollment growth, increased the total number of degrees awarded and increased the number of nursing graduates.

Adds $11.7 million for the general fund share of a three percent faculty salary increase effective November 25, 2005.

Provides $6.7 million for undergraduate student financial aid to offset tuition increases at public colleges and universities.

Provides, for the first time in ten years, increased funding for graduate student financial aid.

Funding of $2.4 million will help Virginia keep the best and brightest graduate students in the Commonwealth.

Adds $1.8 million to increase TAG undergraduate grant awards $100 (to $2,600) and graduate awards to $2,000.

Adds $2.0 million to provide a waiver of the out-of-state tuition and fees differential for children and spouses of military personnel stationed in Virginia.

Adds $2.5 million for the operation and maintenance of new facilities completed during fiscal year 2006.

Adds $1.5 million in planning funds to develop a proposal meeting the educational needs of students in Southside Virginia.

Adds $2.5 million in nonrecurring costs to further strengthen three promising research programs recognized by a national panel of experts to be among Virginia’s most promising research programs.

Host-Pathogen-Environment Interaction (HPEI) Program at Virginia Tech.

Morphogenesis and regenerative medicine research program at the University of Virginia.

Computation and modeling research and partnerships through the Virginia Modeling, Analysis, and Simulation Consortium (VMASC) at Old Dominion University.
Adds $1.1 million for the Path to Industry Certification which encourages students who are not college bound to continue working towards high school graduation while pursuing technical training for a selected industry certification, such as a Licensed Practical Nurse or Auto Body and Collision Technician.

Adds $600,000 for two innovative collaborations among local school districts, community colleges, and universities to provide avenues for college-bound students to begin accumulating college credits while in high school.

Adds $1.2 million for faculty and staff to train hundreds more students in high-demand health care fields at the Medical Education Campus of Northern Virginia Community College.

Adds $597,078 to support accreditation at the School of Business and to expand Internet wiring at Virginia State University.

Adds $350,000 for a comprehensive online encyclopedia of Virginia history and culture at the Virginia Foundation of the Humanities.

Adds $250,000 to train family medicine residents at multiple university practice sites at Virginia Commonwealth University. The funds will allow the program to establish and maintain special training tracks for residents who want to serve inner city and rural populations, along with providing family medical care, including maternity care.

Adds $100,000 for the Grace E. Harris Institute at Virginia Commonwealth University’s Center for Public Policy to provide training for the development of aspiring leaders.

Adds $283,000 for roof repairs and mold abatement at the Roanoke Higher Education Center.

Adds $320,789 in additional funding for grants awarded by the Virginia Commission for the Arts.

Adds $263,000 to supplement state aid to public libraries for localities serving populations greater than 600,000 population, and to offset extraordinary costs related to storm damage in Norfolk.

**Health and Human Resources**

Adds $259.0 million from the general fund to strengthen the safety net for Virginia’s most vulnerable citizens, enhance systems of care for disabled persons, and address high priority needs of at-risk children.

Adds a net $189.0 million to fully fund higher than expected enrollment growth and general inflation in Medicaid for the biennium.
Provides $16.5 million for the 34 percent increase in rates for obstetrical-gynecological services authorized by emergency regulation and another $3.3 million to expand eligibility for pregnant women from 133 to 175 percent of poverty.

Adds $9.4 million for higher enrollment growth in FAMIS and the Medicaid Children’s Health Insurance Program.

Provides $3.8 million to improve access to dental services by upgrading dental equipment in local health departments, funding for the dental loan repayment/scholarship program to meet tuition increases, improving the Department of Health’s retention of public health dentists and a 10 percent rate increase for dental services under Medicaid.

Adds $9.4 million general fund and $33.4 million nongeneral fund to ensure that mandated Temporary Assistance for Needy Families (TANF) cash assistance and childcare is provided to needy Virginians. Also provides $3.9 million TANF to continue funding for the child support supplement.

Improves oversight of adult care facilities by adding $0.5 million general fund to support eleven additional facility inspectors.

Enhances care in assisted living facilities by raising the assisted living facility rate by $50, from $894 to $944.

Provides $3.6 million general fund to continue the Commonwealth’s efforts to comply with the 1999 United States Supreme Court ruling in Olmstead v. L.C. & E.W. by providing individuals with disabilities additional opportunities to live in more integrated settings.

Adds $2.9 million to expand mental health and substance abuse community crisis stabilization to address the increasing demand for acute and intensive services in community settings.

Adds $6.9 million to offset an anticipated shortfall due to increases in drug costs for anti-psychotic and other medications for clients who live in the community and residents of state facilities.

Provides $2.7 million general fund for local departments of social services to manage the increased workload associated with the implementation of mandated child welfare enhancements associated with a federal review of Virginia’s system.

Adds $4.5 million to ensure the availability of early intervention services to serve children from birth to three years of age who are developmentally disabled.

Provides $3.3 million to maintain Medicaid funding for special education medical services for local school divisions

Adds $2.7 million for medical services for involuntary mental commitments
Additional funds of $3.6 million to increase inpatient hospital reimbursement rates.

Adds $350,000 for pharmacy assistance outreach.

Public Safety

Adds $4.2 million for the HB 599 revenue sharing program, in conjunction with increasing general fund revenues.

Funds $6.8 million to address projected increases in criminal and involuntary mental commitment indigent defense costs.

Adds $1.0 million to address increases in operating costs related to state troopers, therefore, eliminating the need to hold about 15 trooper positions vacant.

Provides $0.8 million to support 28 law enforcement deputies in 18 localities in order to maintain the standard of one deputy per 1,500 in population.

Includes $0.6 million to establish 163 additional master deputy positions and to provide salary incentives to sheriffs to meet certification criteria.

Adds $1.5 million to: 1) increase the number of forensic science staff positions to decrease backlogs in the analysis of controlled substances, DNA, and latent prints evidence; 2) expand the lab space at the Norfolk regional forensic facility; 3) and, establish a new mitochondrial DNA laboratory.

Provides $1.5 million to begin phasing in implementation of Compensation Board’s staffing standard for offices of the Commonwealth’s attorneys and to convert three part-time Commonwealth’s attorneys to full-time positions.

Includes $1.1 million to strengthen the state’s efforts to curb gang violence by providing funding for 12 full-time state trooper positions to investigate gang activities and for positions to train juvenile correctional officers and local prosecutors on gang-related issues.

Adds $0.2 million to support 24-hour, seven days per week staffing of the Statewide Agencies Radio System (STARS) Network Operations Center that is scheduled for operation by December 2005.

Provides $1.2 million to increase the availability of alternatives to incarceration.

Provides $0.4 million in additional funding for pre- and post-incarceration professional services (PAPIS) programs, which provide guidance and other resources that increase the opportunity for, and the likelihood of, successful reintegration into local society by incarcerated adult offenders.
Adds $0.2 million to enable the re-opening of previously closed housing unit at Virginia Correctional Center for Women, containing 50 beds, as part of strategy to expand prison capacity for female offenders.

Provides $0.1 million in funding for two positions in the Supreme Court to support drug courts, the responsibility for which was transferred to the Supreme Court by the General Assembly. Furthermore, $1 million in one-time nongeneral funds is provided to help offset expiring federal funds supporting existing drug courts.

Provides $1.5 million to support additional law clerk positions, seven for the Supreme Court and eleven for the Court of Appeals.

**Commerce and Trade**

Proposes a program called Virginia Works, using $20.8 million to promote new strategies for enhancing the economic development potential of rural areas. Virginia Works has three components: (1) Virginia Works for Existing Business; (2) Virginia Works for New Business; and (3) Virginia Works for Strengthened Communities.

Provides $2.0 million for a semiconductor education grant to Virginia Commonwealth University’s School of Engineering in support of the Infineon Technologies, Inc. major expansion.

Provides almost $500,000 to staff and operate the Office of the Secretary of Agriculture and Forestry.

Provides $150,000 for Advantage Virginia Incentive Program and Career Readiness Certificate program.

**Natural Resources**

Provides more than $50 million for natural resources programs over the biennium.

Includes $32.4 million deposit to the Virginia Water Quality Improvement Fund ($16.2 million for point source pollution control and $16.2 million for non-point source pollution reduction).

Provides more than $2.0 million and 27 positions for state park operations and staffing. In addition, $18.6 million is provided for supplements for previously authorized capital projects, equipment, and maintenance reserve.

Adds $650,000 to begin to repair dams in state parks.

Provides $200,000 to improve public access and enhance wildlife management of natural area preserves.
Includes $1.3 million to repay the treasury loan used to provide Litter Control and Recycling Fund formula grants to localities in FY 2005.

Adds over $700,000 to provide technical and financial assistance to localities to develop water supply plans.

Provides almost $500,000 to cover utility costs and additional staff associated with the new Virginia Museum of Natural History facility.

**Technology**

Adds $1.9 million to support CIT’s services in the areas of defense and homeland security, nanotechnology, the life sciences, and assisting small technology businesses.

Adds $1.6 million to finance a biotechnology loan program, providing for technology commercialization activities related to biotechnology inventions.

Provide $0.3 million to support electronic commerce programs (VECTEC).

**Central Appropriations and General Government**

Adds $224.9 million for the Revenue Stabilization Fund to meet the constitutionally required deposit of $268.9 million and the super-deposit of $134.5 million ($174.0 million has already been appropriated).

Provides $41.3 million for a three percent salary increase for state employees effective November 25, 2005 and state supported local employees effective December 1, 2005 and $31.2 million for the increase in health insurance premiums for state employees.

Provides $24 million for localities affected by the transition to the new-capped car tax program. This covers the cost of reimbursements for delinquent bills filed by taxpayers for tax year 2005 and earlier. Without this payment, up to 150,000 vehicles would not receive reimbursement for tax year 2005 and earlier.

Provides $0.5 million for the cost of transition and inauguration expenses for the newly elected Governor, Lieutenant Governor, and Attorney General.