

**REPORT OF THE  
JOINT LEGISLATIVE AUDIT  
AND REVIEW COMMISSION**

# **Review of State Spending December 2004 Update**

**TO THE GOVERNOR AND  
THE GENERAL ASSEMBLY OF VIRGINIA**



**HOUSE DOCUMENT NO. 19**

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2005**

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## Preface

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The *Code of Virginia* (§30-58.3) directs JLARC to develop an annual report on State spending growth, and to identify the largest and fastest growing functions and programs in the State budget. This is the fourth report in JLARC's series on State spending, and it analyzes spending and budget growth over the period between FY 1995 and FY 2004. Previous reports in the series examined growth since FY 1981.

Total State spending (including capital projects) increased 68 percent from FY 1995 to FY 2004. However, when accounting for inflation (23 percent) and population growth (13 percent), State spending increased by a more modest 22 percent growth rate, or 2.3 percent average annual growth over the ten-year period. The State operating budget (excluding capital projects) increased 66 percent over the period (from \$15.9 billion to \$26.4 billion). Spending growth in Virginia was matched by the pace of growth in other states, as Virginia's per-capita, inflation-adjusted growth continued to be ranked in the mid-30s relative to all 50 states.

State spending and appropriation growth was concentrated in traditional core services of State government. Three agencies in addition to the Personal Property Tax Relief Program accounted for 55 percent of the overall growth in appropriations: the Departments of Medical Assistance Services, Education, and Transportation. Two of the eight broad government functions accounted for 60 percent of the growth in total State spending: education, and individual and family services. In addition, six budget programs accounted for 53 percent of the overall appropriations growth, with Medicaid, public education (Standards of Quality), and personal property tax relief exhibiting the most dollar growth over the period.

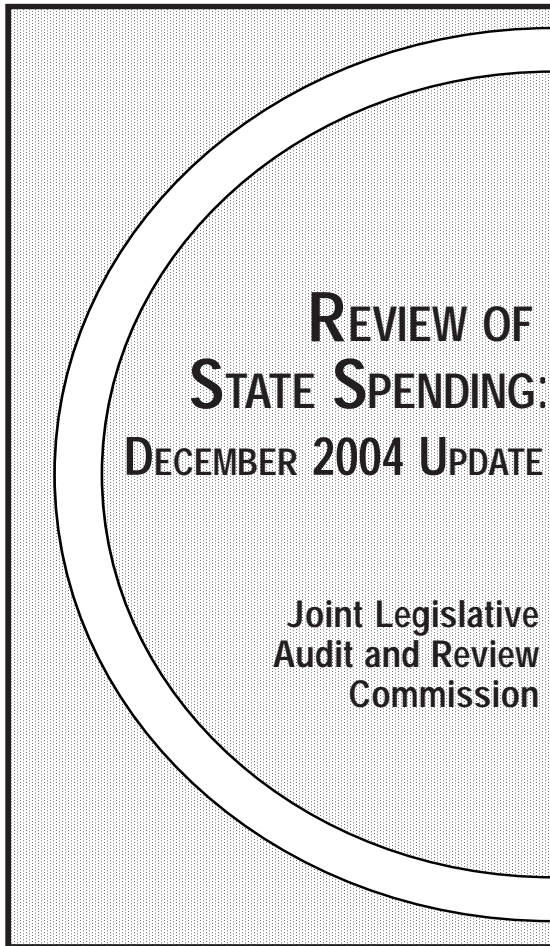
The primary factors driving State spending growth over the ten-year period were inflation, population growth, and economic growth. State initiatives, changes in agency workloads, and federal matching requirements were additional factors. Major State initiatives included the personal property tax relief program (begun in FY 1999 and totaling \$892 million in FY 2004) and the re-benchmarking of the State Standards of Quality. Federal matching requirements for the Medicaid and highway construction programs led to a combined increase of \$3.3 billion in State spending.

On behalf of the Commission staff, I would like to express our appreciation for the assistance provided by staff of the Departments of Accounts, and Planning and Budget.

  
Philip A. Leone  
Director

December 30, 2004

# JLARC Report Summary



**S**ection §30-58.3 of the *Code of Virginia* requires JLARC to develop an annual report on State spending growth, and to identify the largest and fastest growing functions and programs in the State budget. This report is the fourth in JLARC's series on State spending. The first three reports reviewed spending and budget growth over varying periods between FY 1981 and FY 2002. This report focuses on trends during the time period specified in the study mandate: the last five biennia, or the period from FY 1995 through FY 2004.

## Growth in State Spending

Total State spending, including spending on capital projects and the expenditure of bond proceeds, increased 68 percent from FY 1995 to FY 2004, rising from \$16.8 billion to \$28.2 billion in current (not adjusted for inflation) dollars. Growth in total State spending, once the effects of the 23 percent inflation rate over the period are removed, was 36 percent, or 3.5 percent on an average annual basis (see Figure 1). Taking both the estimated population growth of 13 percent over the period and inflation into account leaves a somewhat slower 22 percent growth, or a 2.3 percent average annual growth rate, in State spending.

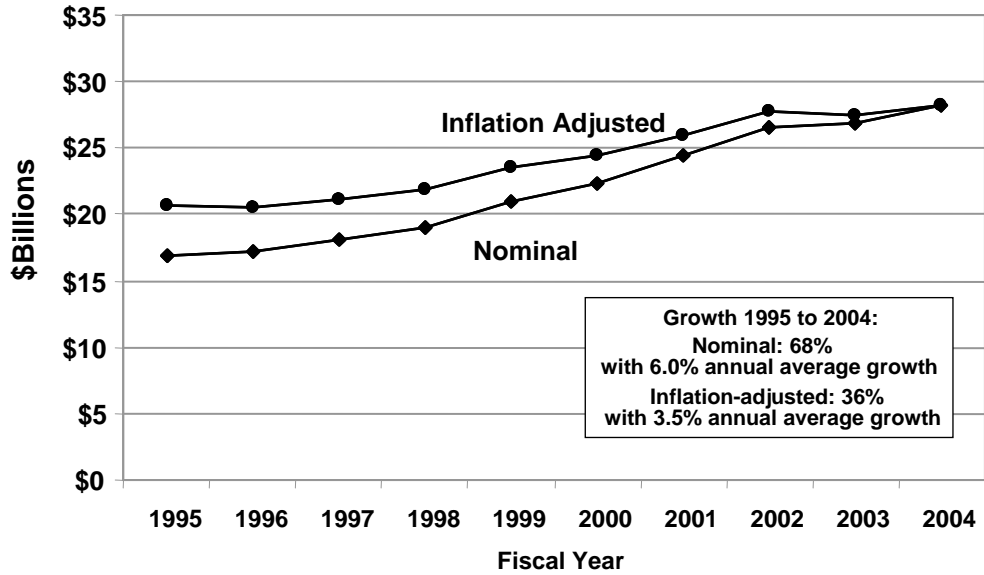
Spending growth was concentrated in traditional core services of State government. In terms of the eight broad government functions, two – education, and individual and family services – accounted for 60 percent of the growth in total spending over the period (see Figure 2).

## Growth in Operating Appropriations

The State operating budget increased 66 percent between FY 1995 and FY 2004, growing from \$15.9 billion to \$26.4 billion. The average annual growth in the operating budget was 5.9 percent.

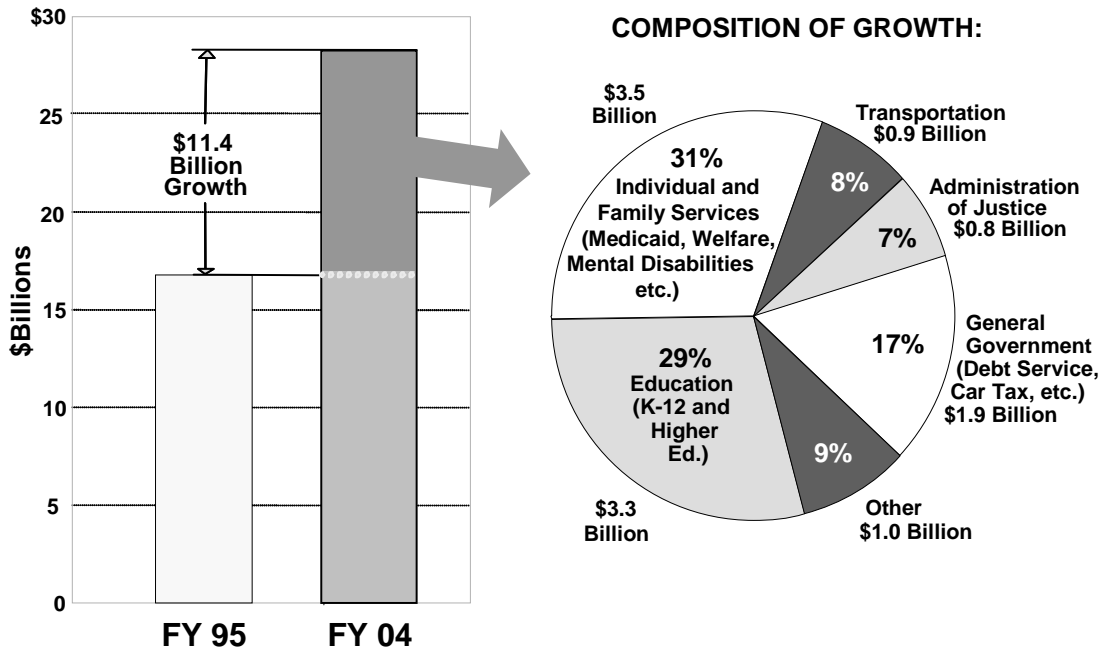
The operating budget excludes capital projects (whether funded by bond revenues or other sources), and thus focuses on the core recurring activities of State government. Like spending growth, appropriations growth was concentrated in just a few budget items over the period. Three agencies (out of 144), in addition to the personal property tax relief program, accounted for 55 percent of the overall growth: the Departments of Medical Assistance Services, Education, and

**Figure 1**  
**Virginia Expenditures**  
 FY 1995-FY 2004



Note: Budgetary or cash basis. Includes operating and capital spending.

**Figure 2**  
**Composition of State Spending Growth**  
 From FY 1995 to FY 2004



Note: Total expenditures on budgetary basis, not adjusted for inflation. Percentages do not sum to 100 due to rounding.

Transportation. In terms of general fund growth, two agencies, in addition to the personal property tax relief program, accounted for 65 percent of the ten-year growth: the Departments of Education and Medical Assistance Services. Six budget programs out of approximately 195 accounted for 53 percent of the overall appropriations growth for the period.

### Program Growth Since FY 1999

As noted above, although spending growth rates vary considerably across programs, a few large programs dominate spending. This variation in turn contributes to the spending patterns seen at the broad governmental function level. This is true despite the fact that spending data at the program level is available only since FY 1999, half the time period for which appropriations growth is reviewed.

Ten programs accounted for 61 percent of all spending growth between FY 1999 and

FY 2004 (see table below). Medical assistance services (Medicaid) showed the largest total dollar growth – \$1.4 billion – over the period, and accounted for the largest share of spending growth. Medicaid accounted for 20 percent of the total spending growth of \$7.3 billion between FY 1999 and FY 2004.

The second largest spending increase over this five-year period was the \$700 million added to the personal property tax relief program. This program was ramping up during this period, having received its first appropriation in FY 1999. It not only accounted for the second largest amount of total growth – ten percent – but also had the highest growth rate among the larger budget programs, with a 386 percent growth rate between FY 1999 and FY 2004.

The third largest dollar growth program was financial assistance for public education (Standards of Quality, or SOQ), which increased \$563 million over the four years.

<b>Programs with Highest Expenditure Growth</b> <b>FY 1999 to FY 2004</b> <b>(All Funds, Dollars in Millions, Not Adjusted for Inflation)</b>			
Rank	Program	Spending Growth	Share of Spending Growth
1	Medical Assistance Services (Medicaid)	\$1,435	20%
2	Personal Property Tax Relief Program	\$700	10%
3	Financial Assistance for Public Education (SOQ)	\$563	8%
4	Employment Assistance Services	\$426	6%
5	Higher Education – Education & General Services	\$318	4%
6	Financial Assistance for Public Education (Categorical)	\$221	3%
7	Personnel Management Services (Employee Health Benefits)	\$219	3%
8	Child Support Enforcement Services	\$213	3%
9	Financial Assistance for Special State Revenue Sharing (Sales Tax)	\$193	3%
10	Higher Education Auxiliary Enterprises	\$169	2%
	Total, 10 Programs	\$4,456	61%

Note: Analysis limited to budget programs with expenditures of more than \$50 million in FY 1999.

This was due largely to re-benchmarking the costs of the Standards. In fact, three of the ten programs with the highest dollar growth over the period were related to public education – not only SOQ funding, but also increases in the Department of Education “categorical” funding as well as in the share of the sales tax that goes back to localities for education.

Two of the ten large-dollar growth programs are in higher education: the education and general program, which includes sponsored programs and other activities, and the auxiliary enterprise program, which mainly serves as a conduit for campus-generated revenues. For example, residence hall and parking fees are generally appropriated in the auxiliary enterprise program.

### **Major Factors Driving Spending**

State spending trends occur within the broader context of Virginia’s changing economy, population, and government. Key trends promoting spending growth include inflation, population and economic growth, and a variety of additional factors such as changes in the populations served and workloads managed by State agencies, State initiatives, and federal mandates. The explanation is constrained by an inherent limitation of trend analysis — the analysis does not establish the appropriateness of the expenditure amount in either the base year or the end year.

Over the ten-year period under review, underlying economic conditions went through several distinct phases. The period includes a “boom” period (the late 1990s) and a national recession in 2001. Virginia’s general fund revenues followed these trends in the overall economy, seeing double-digit growth rates in FYs 1998, 1999, and 2000. The 2001 national recession quickly affected Virginia’s budget, reflected in the \$270 million decrease in the FY 2002 general fund budget.

Virginia’s population grew by an estimated 13 percent over the period, from an

estimated 6.6 million in 1994 to an estimated 7.4 million in 2003 (estimates are by the Weldon Cooper Center at the University of Virginia). While comparable population estimates for the 50 states are not available, the U.S. Census Bureau found that Virginia was the 17<sup>th</sup> fastest-growing state between 1990 and 2000. Two groups within the general population that may have particular effects on State funding and services are older residents and the school-age population. For instance, the number of older Virginians (over 60 years of age) increased 17 percent during the 1990s, faster than the overall population. At the same time, the school-age population grew slightly more slowly than the overall population, at 12 percent.

Inflation contributed to increases in the budget and spending over the period. The consumer price index increased 23 percent between 1995 and 2004, requiring more dollars to continue providing a constant level of services. Costs in some key governmental services exceeded the overall inflation rate; consumer prices for medical care, for example, inflated 47 percent during the first nine years of the period (data was unavailable for 2004).

Reasons for growth in State agencies and programs generally go beyond the effects of inflation and population growth. Potential inadequacies in State funding during the base year of 1995, or in any other year, can be a factor. Policy decisions, federal requirements, demographic and economic factors, and even basic decisions about what should and should not be included in the State budget help explain budget growth. For example, one key factor in understanding Virginia’s budget and spending growth is the requirement in the *Constitution of Virginia* that all State spending may occur only as provided by appropriations made by the General Assembly. One effect of this provision is that funds as varied as child support payments, college tuition, and payments by State employees for health insurance and other benefits must first be in-

cluded in the Budget Bill and appropriated by the General Assembly. In the case of many of these funding sources, the State budget serves mainly as a conduit for money earmarked for specific purposes. Growth in these nongeneral funds nevertheless help drive up the State budget and State spending.

Explaining growth in specific agencies and programs often involves a variety of factors. This report discusses a number of these agency-specific factors. A case in point is budgetary growth in the Department of Education, which includes the costs of enrollment growth and policy decisions over the period, as well as growth in the amount of sales tax earmarked for education. Three major factors account for most of this growth: the re-benchmarking of State Standards of Quality (SOQ) unit costs, enrollment growth, and funding initiatives.

The re-benchmarking process recognizes, belatedly, rising school division costs. For example, in FY 2004 the State contributed funds toward a teacher salary level for SOQ positions that was about \$6,500 higher than in FY 1995, and this has a budgetary impact. While teacher salary figures used in the State budget did not keep pace with inflation from FY 1995 to FY 2004, the figures still reflected about a 21 percent increase over the period. In addition, the total number of pupils enrolled in the public school system increased by 12 percent over the period. Increases in the “units” of the school system (for example, the number of pupils served) and in unit costs have an interactive effect when combined, leading to a greater percentage increase than is indicated by a sum of the percentage increases. Finally, budget initiatives, particularly in FY 1999, led to increases in funding. State-supported initiatives included the use of Lottery Funds for public education, a school construction grant program, and initiatives to hire additional teachers.

State spending also increased due to the adoption of several new initiatives during the period. The most important new initiative during this period, in terms of its impact on spending, was personal property tax relief, which received its initial appropriation in FY 1999 and was budgeted at \$892 million in FY 2004. Other initiatives included annual deposits to the revenue stabilization fund, increased funding for the “HB 599” program, salary increases, and numerous smaller initiatives that together represent hundreds of millions of dollars in new annual spending.

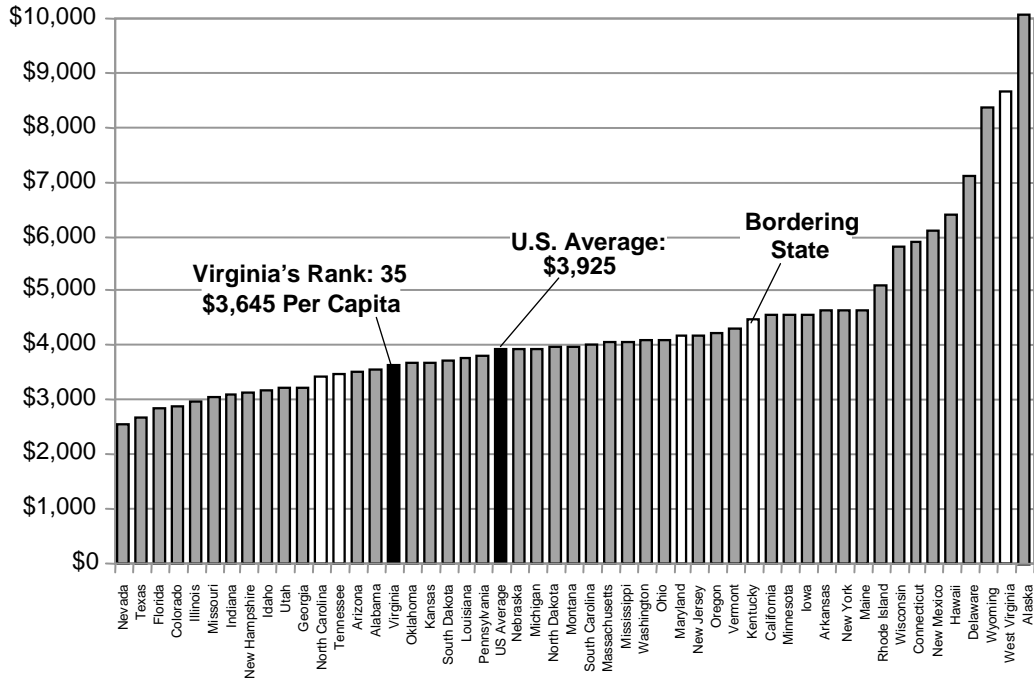
Virginia also spends billions of dollars to meet the matching requirements of numerous federal grant programs. By far the largest is the Medicaid program which, by the end of the period (FY 2004), required more than \$1.7 billion annually in State funds to match federal money. The second largest is highway construction, with a total appropriation of \$1.6 billion (including federal funds) in FY 2004. Although the federal government supplies substantial amounts of funding for these programs, Virginia’s participation requires substantial State financial commitments.

Though spending has increased since FY 1995, Virginia’s major funding priorities have been relatively stable despite significant change in the context of Virginia’s budget. Factors such as population growth, inflation, workload changes, and policy choices have contributed to growth in the State budget. The growth in Virginia’s overall appropriations and spending growth has nonetheless been matched by the pace of growth in other states (see Figure 3 on next page). In per capita, inflation-adjusted terms, State government spending in Virginia continued in FY 2004 to be ranked in the mid-30s relative to all 50 states.



Figure 3

States Compared for Spending Per Capita, FY 2003



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## I. Introduction

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Section 30-58.3 of the *Code of Virginia* requires the Joint Legislative Audit and Review Commission (JLARC) to develop an annual report on State spending growth over the prior five biennia – from FY 1995 through FY 2004. The statute requires JLARC to identify the largest and fastest growing functions and programs in the State budget, and analyze the long-term trends and causes of spending in these programs. Appendix A includes the study mandate.

Other recent reports address aspects of this legislation. A series of JLARC Special Reports in 2002-2003 identified opportunities for efficiencies, savings, and revenue enhancements, many of which were implemented. The work of the HJR 159 Joint Subcommittee on Boards and Commissions, assisted by research conducted by JLARC staff, recommended the elimination of 60 boards, commissions, and collegial bodies; 58 of these entities were subsequently eliminated.

This report is the fourth in JLARC's series on State spending. The first three reports reviewed spending and budget growth over different periods between FY 1981 through FY 2000, 2001, and 2002. This report focuses on trends during the time period specified in the study mandate: the period from FY 1995 through FY 2004.

### OVERVIEW OF BUDGET AND SPENDING GROWTH

Virginia's budget and spending have increased since FY 1995, the starting point for this review. The State operating budget increased 66 percent between FY 1995 and FY 2004, growing from \$15.9 billion to \$26.4 billion (Table 1). The average annual growth in the budget was 5.9 percent.

Total State spending, which includes capital spending as well as the expenditure of bond proceeds, increased 60 percent from FY 1995 to FY 2003, rising from \$16.8 billion to \$26.9 billion in nominal (not adjusted for inflation) cash basis dollars. Figure 1 (page 3) reflects the 6.0 percent annual average increase in expenditures.

The ten-year period under review includes the economic boom times of the late 1990s, reflected in three consecutive years of double-digit growth in Virginia's general fund revenues (Figure 2). The national recession that began in 2001 quickly affected Virginia's budget, reflected in the decrease of \$270 million in the FY 2002 general fund budget. *General* funds derive from general tax revenues such as the personal income tax and may be used for general governmental purposes. In fact, most of the growth in Virginia's overall budget between FY 2001 and FY 2004 was in nongeneral funds. *Nongeneral* funds are earmarked by law for specific purposes, from sources such as college tuition payments or gasoline taxes.

By FY 2004, general fund appropriations had nearly returned to the FY 2001 level, after a year of decline and two more years of below-average growth (FY 2002, which saw a decline of 2.2 percent). During this period of little change in the

<p style="text-align: center;"><b>Table 1</b>  <b>Virginia Operating Appropriations</b>            (Not Adjusted for Inflation, Dollars in Millions)</p>						
Fiscal Year	General Fund	Percent Change	Non-General Funds	Percent Change	Total	Percent Change
1995	\$7,356	--	\$8,498	--	\$15,854	--
1996	7,597	3.3%	8,694	2.3%	16,291	2.8%
1997	8,134	7.1%	8,997	3.5%	17,131	5.2%
1998	8,715	7.1%	8,905	-1.0%	17,621	2.9%
1999	9,967	14.4%	9,995	12.2%	19,962	13.3%
2000	11,093	11.3%	10,276	2.8%	21,369	7.0%
2001	12,284	10.7%	11,039	7.4%	23,323	9.1%
2002	12,014	-2.2%	11,469	3.9%	23,483	0.7%
2003	12,105	0.8%	12,878	12.3%	24,983	6.4%
2004	\$12,370	2.2%	\$14,009	8.8%	\$26,379	5.6%
1995 to 2004		68.2%		64.8%		66.4%
Average Annual Change		6.1%		5.8%		5.9%

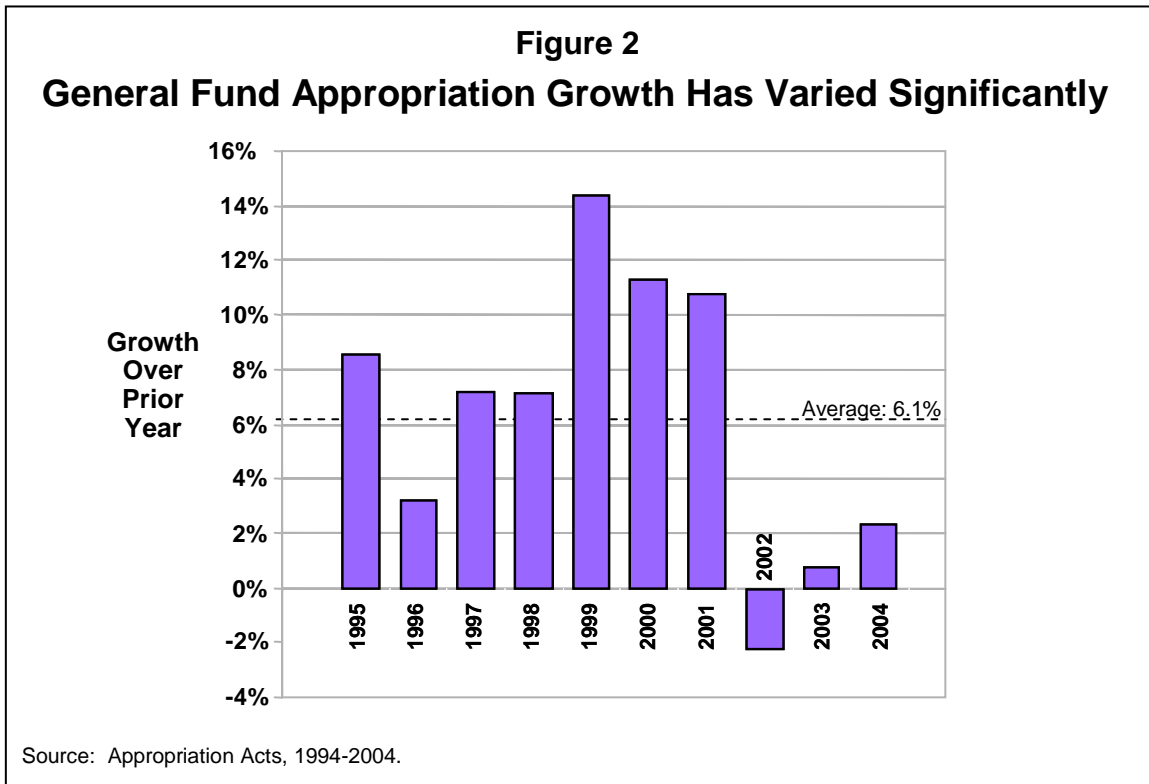
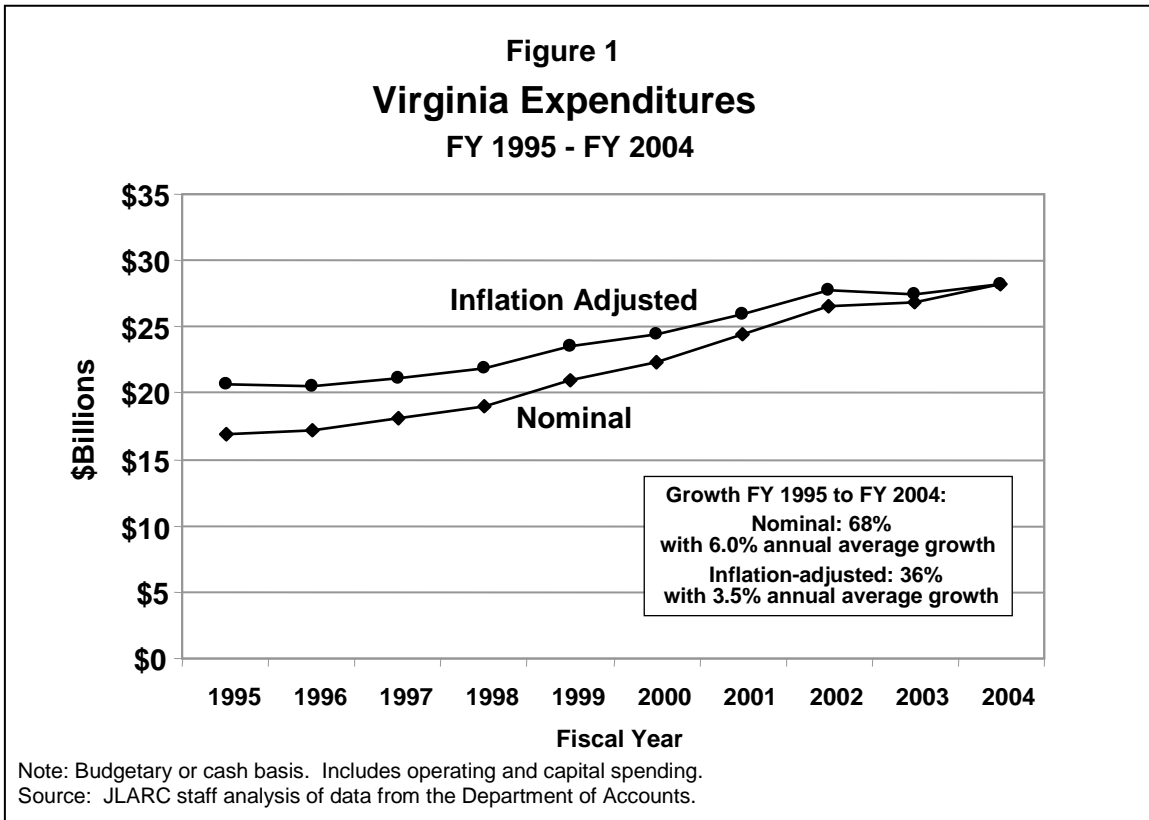
Note: Excludes capital.  
 Source: JLARC staff analysis of final Appropriation Act for each biennium.

general fund, the State's nongeneral funds experienced two years of strong growth rates, sufficient to keep the overall State budget growing.

Inflation explains some of the growth in the budget (Table 2). Inflation contributed 23 percent (as measured by the consumer price index) to the cost of goods and services between FY 1995 and FY 2004. Growth in State appropriations, once the effects of inflation are removed, was 35 percent over the period, or 3.6 percent on an average annual basis.

Virginia's estimated 13 percent population growth between 1995 and 2003 also accounts for some of the growth in State revenues and appropriations, since there were more people paying taxes and consuming State services in 2003 than in 1995. After controlling for the effects of inflation and population growth, Virginia's total appropriations increased 19 percent, an average annual increase of two percent (Table 2).

Many other factors also influenced the State's finances during the ten-year period of this report. Virginia became more prosperous as per-capita income, after



**Table 2**  
**The Effects of Inflation and Population Growth**  
**on Appropriations, FY 1995 - FY 2004**

	10-Year Cumulative Percent Change	Average Annual Percent Change
Final Legislative Appropriations (unadjusted)	66%	5.9%
Inflation-Adjusted	35%	3.6%
Per Capita, Inflation-Adjusted	19%	2.0%
Source: JLARC Staff Analysis.		

adjusting for inflation, grew 36 percent, the 18th highest growth rate in the nation. Virginia's gross State product increased 24 percent over the first half of the period (only data for 1995-2000 are available), after adjusting for inflation. Growth was not uniformly distributed across the State, as several localities experienced declines in both population and personal income during the period, while other localities grew at more than double the statewide rates. The period of this report also stretches across the terms of three Virginia governors, each of whom had a variety of budget initiatives.

### MAJOR SPENDING AND BUDGET DRIVERS

There are several ways of explaining State budget and spending trends. National factors such as inflation must be considered in understanding long-term growth. Economic and population growth also have important impacts on State revenue and spending. Certain "budget drivers" – which includes major trends or significant events that promote State budget and spending growth, as well as large-budget State agencies and programs – also account for significant change in the budget. Other important factors can also drive spending growth, such as State initiatives, federal mandates, and changes in the populations served and workloads managed by State programs.

Another factor in understanding Virginia's budget is the requirement in the *Constitution of Virginia* that all State spending may occur only as provided by appropriations made by the General Assembly. An important consequence of this provision is that funds as varied as child support payments, college tuition, fines paid pursuant to criminal and civil proceedings, and payments by State employees for health insurance, must all first be appropriated by the General Assembly. In the case of many of these funding sources, the State budget serves merely as a conduit for money earmarked by statute for specific purposes. Growth in these funding sources nevertheless helps drive up the State budget and State spending.

It should also be noted that this report does not address the adequacy of funding in governmental functions, agencies, or programs. Consistent with the leg-

islative mandate for this report, it attempts only to identify long-term trends and factors that appear to underlie the trends.

### **Inflation Increased 23 Percent**

As a general increase in the level of prices, inflation explains some of the increase in the State budget, as already noted. As measured by the consumer price index, inflation increased by 23 percent between FYs 1995 and 2004, the period of this review. This means, in general terms, that the State budget would have had to increase by that percentage just to maintain the same service levels. Controlling for the effects of inflation, Virginia's total appropriations increased 35 percent over the period (Table 2), instead of the unadjusted 66 percent.

Adjusting for inflation can help better explain underlying budget changes. The inflation measure most widely used is the consumer price index for all urban consumers, which is used in this report to adjust total appropriations and expenditures for inflation. There are also measures of program-specific inflation. Any given program may experience faster or slower rates of inflation depending on the particular mix of goods and services purchased by that program. For instance, medical care inflation (as reported by the U.S. Bureau of Labor Statistics) increased 47 percent over the nine years for which data are available, from FY 1995 to FY 2003. Controlling for medical care inflation, Virginia's Medicaid spending per recipient increased 16 percent over the period.

### **Virginia's Population Grew 12 Percent**

Virginia became more populous over the period under review. Virginia's population increased an estimated 12 percent between 1994 and 2003, from 6.6 million to 7.4 million people (Table 3), according to the Weldon Cooper Center at the University of Virginia. The U.S. Census Bureau indicates that Virginia was the 17th fastest-growing state between 1990 and 2000. After controlling for the effects of inflation and population growth, Virginia's total appropriations increased 19 percent, an average annual increase of two percent.

While total population increased over the period, and most localities gained population, there were some areas of population loss. Twenty-nine localities (18 counties and 11 cities) are estimated to have lost population between 1994 and 2003 (Figure 3). Between the 1990 and 2000 censuses, 16 cities and seven counties lost population. Localities that are gaining population tend to have different public sector priorities than localities that are losing population – perhaps emphasizing school construction, for example, more than economic development.

Population changes can drive budget increases. Not only do localities that are gaining or losing significant numbers of people tend to have different needs and expectations for public services, there are two age groups in particular that may influence the provision of State services and State funding: older residents and the school-age population. For instance, the number of older Virginians (over 60 years of age) increased 17 percent during the 1990s, faster than the 12 percent increase in the overall population. At the same time, public school enrollment grew at the same



**Table 3**  
**The Context of Change in Virginia**  
**Selected Indicators, 1994 - 2004**  
(Dollar Changes Not Adjusted for Inflation)

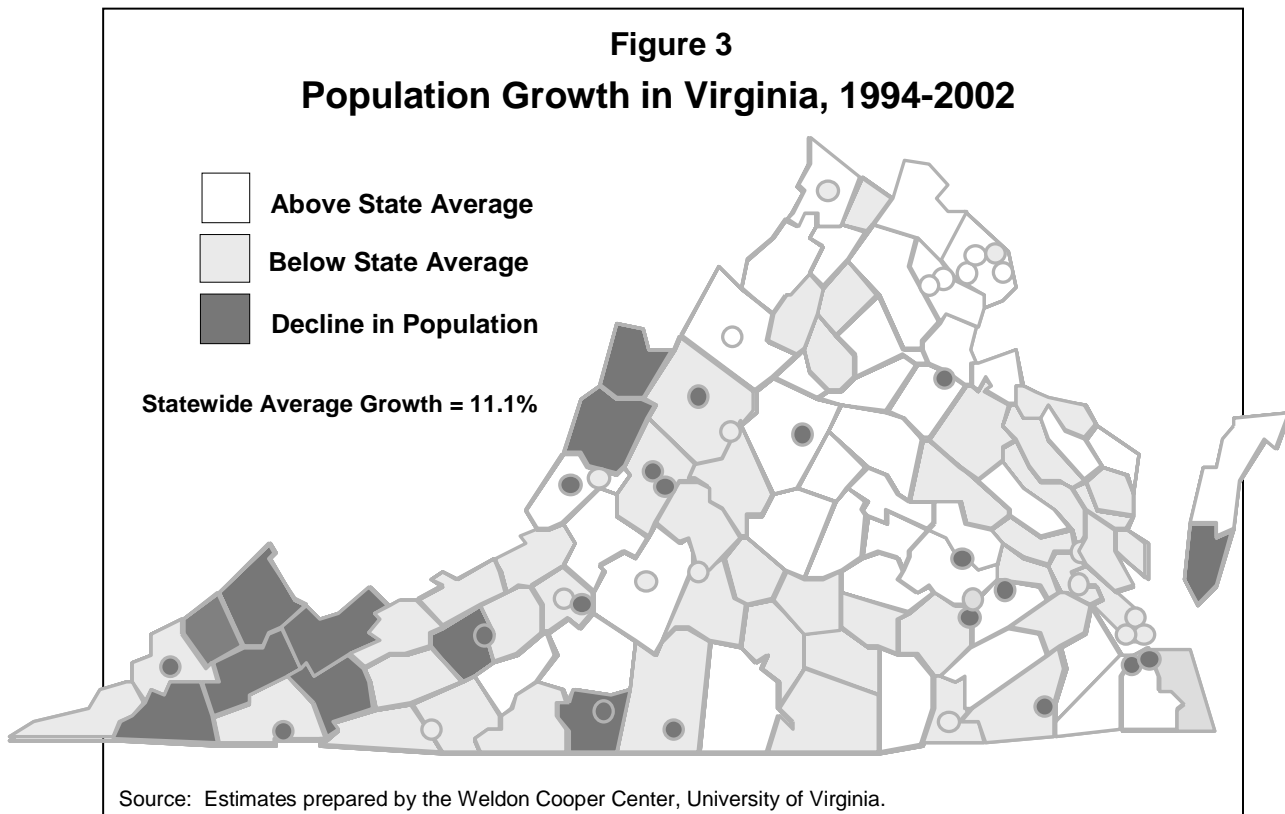
	<u>1994</u>	<u>2004</u>	<u>Percent Change</u>
<b>Population</b>			
Population (estimated)	6,615,100	7,386,300 <sup>1</sup>	12%
<b>Economy</b>			
Total Employment in Virginia (June; Non-farm)	3,004,600	3,589,600	19%
Total State Personal Income (Millions)	\$153,654	\$238,991	56%
Per-capita Personal income	\$23,507	\$32,793 <sup>3</sup>	40%
Total Federal Outlays (Billions)	\$1,461.9	\$2,157.6 <sup>1</sup>	48%
<b>State Finance</b>			
State Budget (Millions)	\$15,854 <sup>2</sup>	\$26,038	66%
State General Fund Operating Budget (Millions)	\$7,356	\$12,260	68%
Maximum State Employment Level	108,863	109,496	0.6%
Average State Employee Salary	\$28,704	\$35,467	24%
<b>State Workloads/Populations Served</b>			
Elementary & Secondary Education Enrollment	1,035,063	1,156,471	12%
Enrollment, 4-Year Colleges & Universities	162,567	185,981 <sup>1</sup>	14%
Undergraduate Tuition & Fees (Public 4-year)	\$2,590	\$3,521 <sup>5</sup>	36%
Medicaid-Eligible Recipients	687,370	725,798	6%
ADC/TANF average monthly paid cases	73,033	33,149	-55%
Support Enforcement Collections (Millions)	\$202.1	\$519.2	157%
State-Responsible Inmate Population	23,648	35,875	52%
Probation & Parole Caseload	34,060	46,912 <sup>6</sup>	38%
MHMR Institutional Daily Average Census	4,857	3,261 <sup>1</sup>	-49%
Registered Vehicles	5,383,522	6,833,735 <sup>1</sup>	27%
Vehicle Miles Traveled (Billions of Miles)	67.6	77.5 <sup>1</sup>	15%
State Park Visitors (millions)	4.7	6.3 <sup>1</sup>	34%
Capacity in Licensed Assisted Living Facilities	26,209	33,974 <sup>1</sup>	30%
<sup>1</sup> 2003 data <sup>2</sup> FY 1995 data <sup>3</sup> 2002 data <sup>4</sup> Estimated <sup>5</sup> 2004-05 school year data <sup>6</sup> As of January, 2004 Sources: JLARC staff analysis of data from various agencies.			

12 percent rate as the overall population. Other indicators of change in the economy and population during the period are shown in Table 3.

Virginia's growing population suggests a need for higher service levels in some State programs, such as education (elementary, secondary, and higher) and transportation. Areas with declining population may have greater need for other State activities, such as economic development. Other populations served by State programs such as Temporary Assistance for Needy Families (TANF), unemployment insurance, and Medicaid expand or contract at least partly in response to Virginia's economic performance.

### Virginia's Economic Growth Has Been Substantial

The Virginia economy grew over the period by several commonly used measures of economic activity: personal income, employment, and gross State prod-

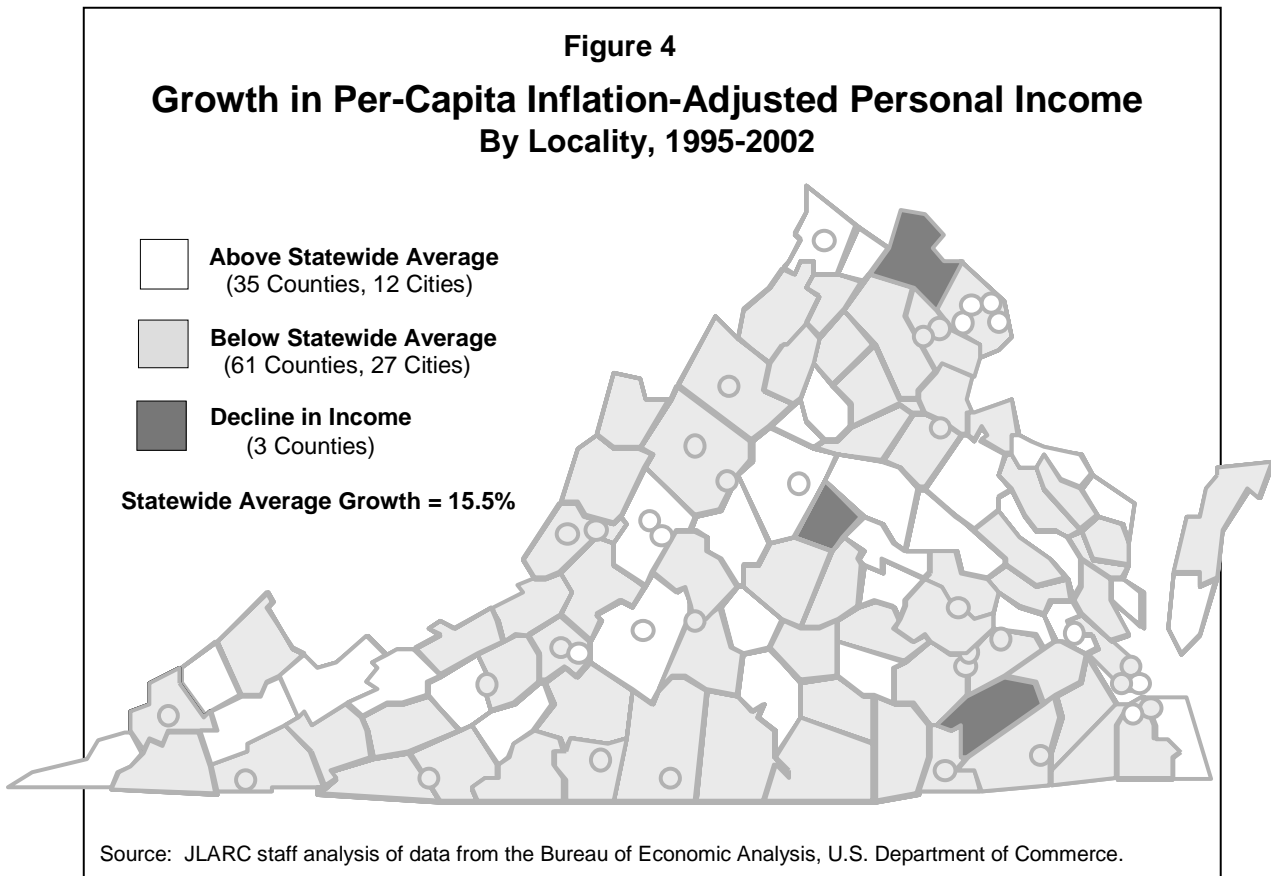


uct. The importance of a growing economy and greater wealth is that, on the supply side, a wealthier population generates increasing revenues. On the demand side, new business and population centers require additional public sector services from roads to schools and public safety.

Virginians became more prosperous during the period covered in this report. Real per-capita personal income (adjusted for inflation) grew 15 percent from 1994 to 2002, according to the most recent data from the U.S. Bureau of Economic Analysis. This rate of growth placed Virginia 20th among the 50 states in terms of real per-capita growth in personal income during the period.

Although personal income increased in Virginia over the period, like population, it did not increase uniformly across the State. Forty-six localities saw growth above the statewide average in per-capita inflation-adjusted personal income over the period (Figure 4). Income growth was geographically concentrated, as over half the personal income growth in Virginia during the eight-year period occurred in just 11 localities in Northern Virginia, the Richmond area, and Virginia Beach.

Economic growth has been driven by increases in the workforce and by changes in the mix of industries employing Virginians. Employment in the non-farm workforce grew 19.5 percent between 1994 and 2003, from 3.0 million to 3.6 million. The share of the population participating in the workforce also increased from 45.4 percent of the population in 1994 to 47.3 percent in 2003.



Shifts to higher paying service industries also characterize Virginia's recent economic growth. Employment in manufacturing, for example, declined 27 percent between 1994 and 2003, while employment in education and health services increased 31 percent, and employment in professional and business services increased 36 percent. Total government employment (federal, state, local, and other) grew slowly, increasing six percent over the nine-year period.

### **Key Workload Indicators of Government Programs Have Generally, But Not Uniformly, Increased**

The broad demographic and economic changes described above influenced the workload of several major State government programs, although there is no consistent trend (Table 4). Some grew significantly while others declined. Potential inadequacies or inefficiencies in the base year of FY 1995 can be a factor. Specific policy choices and other factors also help explain budget changes.

The link with their respective State agency budgets is not always clear or consistent, as illustrated in Table 4. In many cases a complicated array of factors is at work, including not only changes in workload but also policy decisions to make changes in programs and funding levels. In some cases, such as school enrollment, growth in the service population increased more slowly than real (inflation-adjusted) growth in the agency's budget. This is due to the fact that the budgets for many

<b>Table 4</b>	
<b>Selected Workload Indicators and Inflation-Adjusted Budget Change</b>	
<b>FY 1995 – FY 2004</b>	
	<b>Percent Change in Population and Budget</b>
Elementary and Secondary Education Enrollment (Average Daily Membership)	12%
Direct Aid to Public Education Budget	28%
4-Year Public College & University Enrollment (Full-Time Equivalent students)	14%
4-Year Public College & University Budgets	- 10%
Medicaid-Eligible Recipients	6%
Department of Medical Assistance Budget Adjusted for Medical Inflation	29%
TANF Recipients	- 55%
Temporary Income Supplemental Services Program Budget	- 61%
Registered Vehicles	27%
Vehicle Miles Traveled	15%
Department of Transportation Budget	24%
State-Responsible Inmate Population (excluding out of state inmates)	52%
Department of Corrections Budget	26%
Note: Agency appropriations adjusted for changes in CPI-U except as indicated. Sources: JLARC staff analysis of agency data.	

agencies are driven by more than just the service population noted here. The education budget increase, for example, can be partly explained through increased enrollments. In addition, costs were re-benchmarked, to take into account higher prevailing (typical) school division costs in providing programs to meet the State Standards of Quality (SOQ). Some incentive-based accounts were established and other funding initiatives were undertaken, to address certain perceived funding inadequacies as well as to enhance the level of support given to public education.

In other cases, such as the State-responsible inmate population, the population served by the agency increased faster than real growth in the agency's budget. The Department of Corrections' budget rose more slowly than the prison population as the department accommodated more inmates without adding proportionate amounts of prison space or numbers of staff. Space in Virginia prisons was also leased for the use of other states' inmates, thus generating some revenue which was included in the budget of the Virginia Department of Corrections.

In other agencies, budgets declined more rapidly than service populations. A good example is the appropriation for temporary income assistance (TANF), which fell even faster than the number of program recipients. Further background on these trends may be found in the agency profiles included in *Interim Report: Review of State Spending* (House Document 30 (2002)). Federal mandates, discussed in the

following section, also account for some of the budget growth during this ten-year period.

### **Federal Mandates Help Drive State Spending**

Federal legislation often requires the State to provide matching funds in order to receive federal funds. In some cases, simply to continue participating in a federal program requires substantial State funding.

In most cases the federal government provides some funding for federal mandates and incentive programs. These funds provide states an opportunity to pursue programs they might not otherwise attempt. The largest federal programs in Virginia are the Medicaid and highway construction programs. The eight largest federal programs represented \$4.6 billion in federal spending in Virginia in federal fiscal year 2003. The matching rate Virginia is required to provide varies from program to program. Many of these programs impose substantial administrative or regulatory requirements on the State to maintain its eligibility.

The Medicaid program, which pays for health care for certain eligible individuals, is an example. Medicaid is the largest federal program in the Virginia budget with \$2.1 billion in federal funds and a total budget of \$4.0 billion in FY 2004. Many federal programs require a State match, and in the case of Medicaid, these “match rates” change annually. For example, the rate at which Virginia must match federal funds in the main Medicaid program is set by a formula. In FY 2004, the formula specified 50.13 percent federal funds and 49.87 percent State funds. During the ten-year period under review, the State share has varied from a high of 50.00 percent in FY 1995 to a low of 48.19 percent in FY 2002. Even a small percentage change can have a substantial effect in a program with a budget in the billions of dollars. (More information about the use of formulas in the budget is provided in Appendix F.)

There have been a variety of mandatory program expansions over the years that Virginia has accommodated in order to continue receiving available federal funds. Examples of Medicaid expansions by the federal government include raising the resource levels individuals may maintain and still be eligible, expanding services provided to Medicaid-eligible children, and expanding enrollment by increasing coverage of pregnant women and children. The State’s Medicaid agency, the Department of Medical Assistance Services (DMAS), has estimated the initial costs of federally-mandated changes to the program at \$107 million through 2002. This amount includes only the first-time implementation costs, not the recurring spending that resulted from increases in enrollment and services provided.

Other federal mandates include environmental programs such as the Clean Water Act administered by the Department of Environmental Quality; enforcement of court-ordered child support payments administered by the Department of Social Services; higher staffing requirements at State mental health facilities; the motor voter law, administered by the Department of Motor Vehicles; and special education funding requirements, administered by the Department of Education. In addition, State agencies, in the course of operations, are required to comply with various fed-

eral regulations designed to achieve goals such as workplace safety and environmental protection. These requirements may not always be considered mandated services but still add to the costs of doing business for State government.

Although Virginia receives a substantial amount of federal funds, the Commonwealth is not a large federal grant recipient in per-capita terms. Since federal fiscal year 1995, Virginia has ranked between 47<sup>th</sup> and 50<sup>th</sup> among the states in terms of per-capita receipt of federal grant awards since FY 1995. At the same time, Virginia enjoys a disproportionate share of total federal spending due to the large military presence in the State and the geographic proximity to Washington D.C. These issues are discussed more fully in the recent JLARC report, *Review of Virginia's Activity in Maximizing Federal Grant Funds*.

### **Virginia Initiatives Triggered Spending**

In addition to overall population and economic growth, and changes in major service populations, State initiatives and policy choices have also driven spending. During the ten-year period of this review, Virginia embarked on several policy and programmatic initiatives that helped shape the State's overall pattern of spending. In some cases, the initiatives were proposed by a Governor and may have been key campaign issues. In other cases, the initiatives stemmed from federal, legislative, or other sources. Once enacted, however, these initiatives tended to remain in the budget as significant sources of expenditure, even if their growth was uneven.

To illustrate the recurring impact of initiatives, several policy initiatives discussed in previous JLARC spending reports together accounted for \$1.2 billion in FY 2004 general fund appropriations, or 11 percent of the total general fund budget. These include:

- the phase-out of the personal property tax, beginning in 1998 and requiring an appropriation of \$892 million in FY 2004 (discussed in more detail in Chapter 3);
- the "HB 599" program of financial assistance to localities with police departments, adopted in 1979, had an appropriation in FY 1995 of \$67 million, increasing to \$169 million in FY 2004;
- the revenue stabilization fund, which was initiated with a \$79 million payment in FY 1995. Additional payments totaling \$733 million were paid into the fund between FYs 1997 and 2002. Funds were then withdrawn to help cover revenue shortfalls in FYs 2002, 2003 and 2004. FY 2004 also saw a deposit of \$87 million into the fund (the fund is discussed in more detail in Chapter 3);
- the cost of State employee compensation, along with the State share of salary increases for certain local employees (often but not always including teachers), which alone (not including the costs of benefits) required additional funding of \$83 million in FY 2004.

Background information on these initiatives is described more fully in the prior JLARC reviews of State spending.

Several other initiatives also contributed to spending growth, including the use of general funds for transportation, economic development assistance, local school construction, and other initiatives. These items, discussed below, had appropriations of \$572 million in FY 2004.

A number of additional items contributed to budget growth over the period. A listing of the ten largest general fund increases made by each General Assembly between 1995 and 2004 is included as Appendix B.

**General Funds for Transportation.** Historically, transportation activities such as highway construction and maintenance have been funded with revenues from earmarked sources. An example is the tax on motor fuels, where the notion is that the tax serves as a user fee paid in exchange for using transportation facilities and services. Beginning in FY 1991, however, some general funds were appropriated for transportation purposes. Language in the Appropriation Act indicated that these initial general funds were to derive from the State recordation tax, and were to be used for the U.S. Route 58 Corridor Development Fund.

With the adoption of the Virginia Transportation Act of 2000, the amount of general funds in transportation significantly increased. In FY 2001, \$326 million in general funds was appropriated to the Virginia Department of Transportation (VDOT), along with \$45 million for FY 2002. This trend continued into the next biennium with \$141 million in general funds appropriated to VDOT in FY 2003 and \$73 million in general funds appropriated in FY 2004.

**Economic Development Assistance.** Virginia has dedicated funding to a variety of incentive programs designed to entice businesses to relocate or maintain employment in the State. A recent JLARC review (*Special Report: State Business Incentive Programs, 2002*) found that certain of these incentive programs helped create more than 22,000 jobs in the 1997-98 timeframe, with another 10,000 jobs in subsequent years. The review also noted that cutting these programs would, within three years, be likely to decrease tax revenues by more than the amount saved. These programs appear to be good investments, and they are Virginia initiatives. Funding has varied significantly from year to year for these activities: from \$71 million in FY 2002, to \$36 million in FY 2003, to \$34 million in FY 2004 for these and related economic development activities.

The major components of this policy are pursued through the Virginia Economic Development Partnership, which received \$14.5 million in general funds in FY 2004. The Governor's Development Opportunity Fund received an appropriation of \$9.1 million in general funds, and other economic development activities were funded through the Department of Business Assistance, including \$10.8 million in general funds.

**School Construction.** The vast majority of State funding for elementary and secondary education goes for operating expenses of the 132 local school divi-

sions. Historically, the State supported local school capital projects through low-interest loans from the Literary Fund, although most of this revenue has been earmarked for the State share of funding for teacher retirement since FY 2001.

In recent years, the State has taken a more direct role in school construction. Beginning with the 1998-2000 budget, 50 percent of the local share of lottery proceeds was required to be used by local school divisions for nonrecurring costs, such as construction. Beginning in FY 2001, the State provided an additional \$55 million annually in general funds for the school construction grant program. (This amount was subsequently reduced to \$28 million per year in the 2002-2004 budget.)

**Primary Class Size Payments.** For the past two decades, the State has provided payments to school divisions as an incentive to reduce class sizes in kindergarten through third grade. To participate in the program, participating schools must meet pupil/teacher ratios and class sizes based on the percentage of students eligible for free lunch. The greater the percentage of students eligible for free lunch, the lower the pupil/teacher ratios and class sizes required to participate in the program. The pupil/teacher ratios and class sizes required by the program are substantially lower than those required by the State's Standards of Quality.

The primary class size payment initiative began in the 1994-1996 biennium. During the first biennium, the State provided approximately \$39 million annually towards this initiative. Since then, the program has grown to more than \$60 million in State funds provided annually. In FY 2004, the State provided \$62 million for this purpose. Localities are required to provide a match to the State funds provided through this initiative.

**Tobacco Settlement.** The multi-state settlement in 1998 of a lawsuit against the major tobacco companies resulted in the payment by the companies to the states beginning in 1998 and continuing "in perpetuity." The exact amounts received by Virginia are calculated annually, based on the volume of tobacco shipments and other factors. The 1999 General Assembly established a 31-member body to make payments to farmers to compensate for the decline of tobacco quotas and to promote economic growth and development in tobacco-dependent communities.

Funds appropriated under this settlement have been substantial, beginning with an appropriation in FY 2000 of \$166.5 million and fluctuating in subsequent years. In FY 2004, \$79.5 million was included in the Appropriation Act for these purposes. These funds are managed as nongeneral funds, and are appropriated to the Virginia Tobacco Settlement Foundation and the Virginia Tobacco Indemnification and Revitalization Commission, as directed in the legislation and subsequent amendments establishing these entities.

**Other Initiatives.** A variety of other State initiatives are included in the Appropriation Act. When these initiatives became established policy and practice, their costs tend to become permanent parts of the budget. The following list indicates the scope and costs of some recent initiatives.



- tuition assistance grants for Virginia residents attending in-state private colleges and universities (\$38 million in general funds in FY 2004);
- funding of non-State agencies ranged from \$5 million in general funds in FY 1995 to as much as \$44 million in general funds in FY 2000, before being virtually eliminated in the 2002-2004 biennium;
- contracting with other states to accept their inmates in Virginia's prisons generated some revenue in the 1998-2002 timeframe, but when Virginia could no longer accommodate these out-of-state inmates, replacement funding was required to house Virginia inmates in these prisons – costing \$53 million in FY 2004; and
- growth in the Comprehensive Services Act (CSA) program has been significant over the period. In FY 1995, CSA spent \$116 million, of which \$78 million was State general funds. By FY 2004, the CSA appropriation had grown to \$204 million, including \$168 million in general funds.

Various other factors also help explain some of the growth in Virginia's budget. One factor (noted earlier) is the requirement in the *Constitution of Virginia* that all State spending may occur only as provided by appropriations. One result of this provision is that funds as varied as child support payments, college tuition payments, and sponsored research at the colleges and universities must first be appropriated by the General Assembly. These programs are not funded by State taxes but by money paid by individuals or other organizations for specific services and activities. The use of formulas in the budget, which can put appropriations on track to increase almost automatically, also contributes to budget growth (examples of the effects of formulas are discussed in Appendix F). Non-general funded programs and activities, as will be discussed in Chapters II and III, contribute materially to State budget growth.

Virginia's budget has grown as a result of many factors, including inflation, population growth, economic growth, State initiatives, federal mandates, and other factors. Not every State agency and program experienced as much growth as suggested by the overall growth in the State budget. Some grew faster during the ten-year period under review, and some grew much more slowly or were level-funded (in other words, received no budget increases). Some programs and agencies were initiated, and others were abolished or consolidated.

### **Effects of Budget Reduction Efforts**

Although Virginia's State budget grew 66 percent in unadjusted terms between FY 1995 and FY 2004, numerous steps were also taken, particularly in response to the economic downturn of the early 2000s, to restrain budget growth. These actions were essential to keeping appropriations within anticipated resources. Without these actions, the budget would have grown more.

Several of the larger actions in the 2002 – 2004 timeframe are listed in Table 5. The table includes only reductions in agency and program budgets, and does

not include any offsetting actions which may have been taken in selected agencies and programs.

A key point relates to the focus on the State's general fund. The budget process places a priority on ensuring that general fund appropriations stay within expected general fund resources. There is usually less concern about the overall size of total nongeneral fund appropriations. As a consequence, nongeneral funded pro-

**Table 5**  
**Selected Major Budget Reduction Actions\***  
**2002 - 2003, All Funds**

	<b><u>Reduction in Millions</u></b>
<b>Actions Taken by 2002 General Assembly to Reduce the 2000-2002 Budget:</b>	
Use Literary Fund revenue to pay part of teacher retirement	\$ 110.0
VDOT - Replace General Fund appropriation with Federal Reimbursement Anticipation Note (FRAN) authorization	\$ 89.4
Across-the-board reductions in executive branch agencies	\$ 87.3
Freeze car tax phase-out at 70%	\$ 46.0
Apply lower retirement contribution rates to reflect updated valuation	\$ 43.3
Shift certain Compensation Board payments into the next year	\$ 35.1
Virginia Retirement System—revenue from dormant accounts	\$ 32.7
Other actions	\$ <u>73.8</u>
<b>Total reductions adopted in budget bill (HB 29)</b>	<b>\$ 517.6</b>
<b>Actions Taken by 2003 General Assembly to Reduce the 2002-2004 Budget:</b>	
Higher education reductions	\$ 287.6
Reduce aid to localities (Compensation Board, Community Services Boards, Constitutional Officers, etc.)	\$ 100.9
Eliminate reserve for salary increases	\$ 101.4
Personnel, asset management, and other savings in Virginia Department of Transportation	\$ 63.7
Defer certain adjustments and generate other savings in Department of Medical Assistance Services	\$ 62.8
Department of Corrections reductions	\$ 60.9
Public education – technical and other reductions	\$ 45.6
Other reductions and re-forecasts of nongeneral funds	<u>\$1,013.3</u>
<b>Total appropriation decreases included in budget bill (HB 1400)</b>	<b>\$1,736.2</b>

\*Includes only reductions included in Appropriation Acts. Does not include any off-setting additions of funds.

Source: JLARC staff analysis of Joint Money Committee staff Summaries of Budget Actions for respective years.

grams and agencies may continue to grow because their revenue sources are independent of the State's general fund. Thus, overall appropriations may continue to grow funded programs and agencies may continue to grow because their revenue sources are independent of the State's general fund. Thus, overall appropriations may continue to grow even though general fund appropriations level off or even decline – as was the case from FY 2001 through FY 2004 (as previously shown in Table 1).

## THE BASIS OF THE STATE BUDGET

The State budget operates within a legal framework including the *Constitution of Virginia*, the *Code of Virginia*, and the Appropriation Act. It is proposed by the Governor in the form of the budget bill, is amended and approved by the General Assembly, and covers a two-year period (a biennium). Consequently, everything in the State budget stems from this review and approval process by the State's elected officials. The *Interim Report: Review of State Spending* (House Document 30 (2002)) described Virginia's budget process, including discussions of the program budget structure, revenue forecasting process, and performance measures.

Data used in assessing Virginia budget growth come from several sources and are available at several levels of aggregation. Financial data are available in the form of appropriations and expenditures, at the function, program and agency levels of aggregation. The time periods vary for which various levels of appropriation and expenditure data are available, and will be noted where relevant throughout this report.

### Terminology Used in the Budget

There are several specialized terms used in the Virginia budget process. This section explains them and how they are used.

An *appropriation* can be considered a limit on spending, or a spending ceiling, that is authorized by the General Assembly and approved by the Governor. Expenditures may be made only if the agency or program has an appropriation (legal authority) to do so. Appropriations are maximums that expenditures cannot exceed. Appropriations are payable in full only if revenues sufficient to pay all appropriations in full are available. A non-general funded program or agency must have both an appropriation and sufficient cash on deposit in the State treasury in order to expend the funds.

Unless otherwise noted, appropriations used in this report are the final appropriations approved (voted on and adopted) by the General Assembly. This includes all legislative changes made to appropriations during a biennium, such as second year changes to first year amounts and "caboose bill" (a third and final Appropriation Act during a biennium) changes to second year amounts. Administrative adjustments made to appropriations subsequent to the adoption of the "caboose bill" are not included. The Appropriations Act authorizes the Governor, under certain conditions, to make limited adjustments to appropriations.

*Expenditures*, as used in this report (unless otherwise noted), are actual amounts spent or transferred by State agencies and certified by the Department of Accounts. Expenditures include financial assistance to localities for personal property tax relief as well as deposits made to the revenue stabilization fund. Expenditures also include payments made on capital projects in a given year, regardless of when appropriations were made to the projects.

Expenditures may vary from appropriations because of administrative adjustments to the legislative appropriation. Because detailed expenditure data was not available for early years of the study, this report sometimes uses appropriations as a “proxy” or surrogate for expenditures. Accessing historical data about expenditures has proven difficult, in part because of the State Records Retention Act, which generally requires agencies to retain such data for no more than three to five years.

Beginning with the 2002 edition of the Comprehensive Annual Report of the Comptroller (CAFR), the State began reporting expenditures by governmental function on a modified accrual basis. Previous editions had reported these expenditures on a “cash” or budgetary basis. This change allowed Virginia’s financial reporting to conform to the requirements of the Governmental Accounting Standards Board (GASB). The change also posed a significant problem for the analysis of long-term spending trends, as the new reporting basis describes expenditures and revenues on a different basis. This matter was resolved when the Department of Accounts agreed to continue providing JLARC staff with annual expenditure data for the broad functions of government on a “cash” or budgetary basis (included in Appendix D).

Virginia’s budget is based on a *program structure*, a mechanism intended to conveniently and uniformly identify and organize the State’s activities and services. Under this structure, services that the State provides are classified into three levels of detail: functions, programs, and agencies.

*Functions* represent the broadest categories of State government activities. Virginia government is grouped into seven broad operating functions, such as “administration of justice” and “individual and family services.”

Budget *programs* include funding directed toward specific objectives such as developing or preserving a public resource, preventing or eliminating a public problem, or improving or maintaining a service or condition affecting the public. Programs are grouped by function, and may appear in several agencies. First adopted by Virginia in the mid-1970s, program budgeting tries to avoid the excessive detail of line-item budgets by combining logical groupings of governmental activities into broader “programs.”

Programs are more specific than the broad governmental functions and may appear in several agencies. For example,

*The budget program “State health services” within the broad individual and family services function includes efforts to provide direct health care services to individuals and families through State-*

*operated facilities, including services relating to child development, drug and alcohol abuse, geriatric care, inpatient medical, maternal and child health, mental health, mental retardation, outpatient medical, technical support and administration, and other services. This program is included in several agencies, including the University of Virginia Medical Center, Virginia Commonwealth University, Department of Health, Department of Mental Health, Mental Retardation and Substance Services, Department of Corrections, and others.*

\* \* \* \* \*

*The budget program “administration and support services” within the broad function of administration of justice combines a wide variety of discrete services, including computer services, architectural and engineering services, food and dietary services, housekeeping, personnel services, power plant operation, nursing and medical management, and others. This program is included in several agencies under the Secretary of Public Safety, including the Departments of Corrections and Juvenile Justice.*

An agency represents the level of operational and budgetary control and administration of State services. Agencies usually include a set of programs, all coming under the purview of an agency head who typically is appointed by the Governor, along with a staff who implement the agency’s programs.

The State accounting and budgeting system essentially regards anything assigned an agency code to be equivalent to a State agency, although such codes are often merely a matter of administrative convenience. For instance, appropriations for agency codes 799, 767, 795, and 711 (for central office, institutions, community corrections, and correctional enterprises respectively) must be combined to arrive at a budget total for the Department of Corrections. In addition, budget codes are sometimes used as a way of entering a new program or activity into the State system and ensuring budget control. Thus, the “personal property tax relief program” (746) and “compensation supplements” (757) are examples of programs (just financial accounts, in reality), which have been assigned a program budget code for administrative convenience.

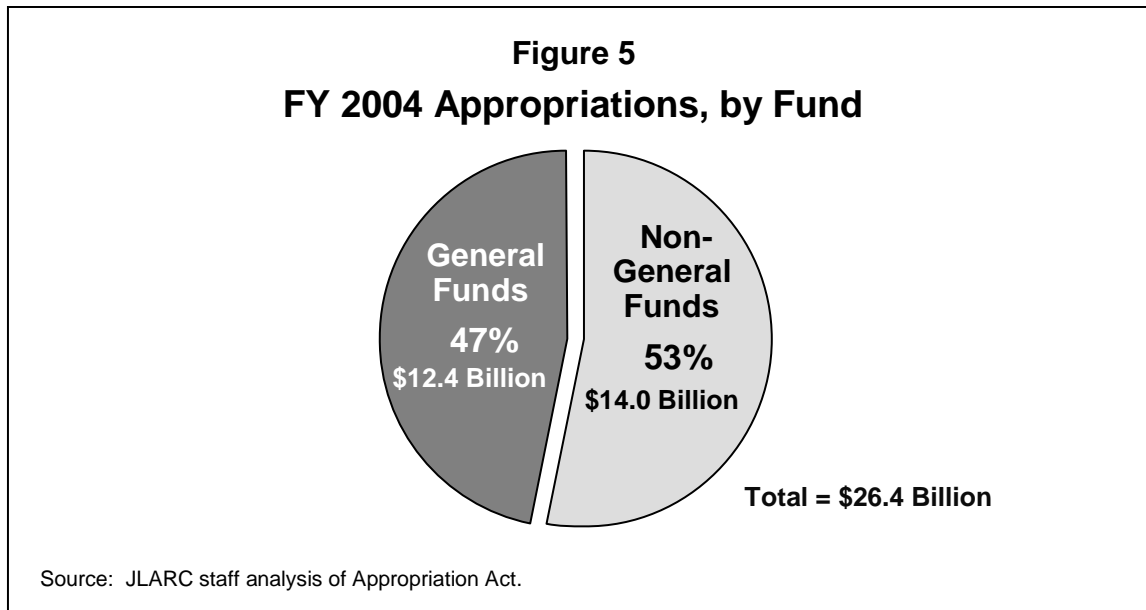
In keeping with conventional practice in Virginia budget analysis, this report groups agency budget codes into what are logically or operationally a single agency. For instance, during the period of this review the Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS) comprised 15 mental health and mental retardation hospitals and training centers, a central administrative component and a grants-to-localities component, each of which has a separate agency budget code. This report combines these 17 agency budget codes to analyze changes in DMHMRSAS budgets. Another example is combining the College of William and Mary with the Virginia Marine Science Institute agency code to arrive at a total for the College of William and Mary. In 2002, this approach identified 144 State agencies, noted in Appendix D of the JLARC report, *Review of State Spending: June 2002 Update* (House Document 3 (2003)).

Like the Appropriation Act, this report treats the personal property tax relief program as a separate agency. This permits the car tax relief program to be compared to other State spending priorities, which are commonly considered in terms of agency codes.

### General and Non-General Funds

State revenues and appropriations are grouped into two categories, depending on their origin: general and non-general funds. The State's general fund consists primarily of revenue from income and sales taxes that are not restricted in any way, and are used for the widely varied purposes of government. Non-general funds, as noted earlier, derive from many diverse sources and are earmarked or restricted to certain specified uses.

General and non-general funds comprised 47 and 53 percent, respectively, of the FY 2004 Virginia budget (Figure 5). This is important because it means that the expenditure of more than half the State budget is determined more by the source of funds than the appropriation process. This ensures that child support payments, for example, are spent for child support and not some other purpose. It also means that growth in more than half the budget is determined by factors other than the budget decision-making process.



### JLARC REVIEW

This report, the fourth in the JLARC's series on State spending, describes budget growth as stemming from several factors. These factors include inflation, population and economic growth, increases in the populations served by State programs and agencies, federal mandates, and Virginia-specific factors, such as ini-

tiatives and funding decisions, and program and policy decisions within the individual agencies and programs of the State budget.

To conduct this review, JLARC staff collected appropriation and expenditure data from a variety of sources, including the Department of Planning and Budget (DPB), the Department of Accounts, and the Auditor of Public Accounts, as well as other agencies, and reviewed previous reports and documents pertaining to State spending.

## **Data Collection**

JLARC staff receive annual updates of budget, spending, and debt data from several agencies, including DPB, the Department of Accounts, the Auditor of Public Accounts, the Department of Taxation, and the Department of the Treasury. JLARC staff currently maintain a database including appropriation data at the agency, program and fund level from FY 1983, appropriation data at the agency and fund level from FY 1981, and final adjusted appropriations and expenditures at the agency, program and fund level since FY 1999. Additional data items include certified spending at the functional level, revenues by source, and debt approvals and authorizations, all since FY 1981. Finally, several sources of economic and demographic data have been obtained from various federal agencies such as the Census Bureau and the Bureau of Economic Analysis, and from the Weldon Cooper Center at the University of Virginia.

Key constraints in collecting information about budget changes over time are the limited historical data maintained by various State agencies, and staff turnover within the agencies over this long period of time. Several agencies pointed out that Virginia's records retention policy does not require that appropriations and expenditure data be retained for more than five years. Consequently, useful information about budget changes during the early to mid-1990s, for example, is unavailable from many agencies. Turnover among budget staff and in other key positions within agencies also limits the amount of information available for historical purposes. Agency reorganizations, consolidations, eliminations, and additions of agencies, as well as changes in program structure or services further constrain analysis. JLARC staff attempted to supplement information provided by agencies by referring to a variety of documentation noted below.

Key elements of these fiscal data sets are included in Appendixes to this report. Appendix C presents the ten largest general fund increases made by each General Assembly between 1995 and 2004. Appendix D displays State expenditures by broad governmental function from FY 1981 through FY 2004, on a cash or budgetary basis. Appendix E lists final legislative operating appropriations by fund type, over the same period. Appendix F lists final legislative operating appropriations by secretarial area from FY 1981 through FY 2004.

To facilitate access to the data developed in this review, selected historical financial data have been placed on the JLARC website. Currently, the online information includes the tables in Appendixes D, E, and F, as well as appropriations for the largest State agencies, and general fund and nongeneral fund appropriations

from FY 1981. This information is available by clicking the “fiscal analysis” tab and then the “fiscal data” tab at the JLARC website (<http://jlarc.state.va.us>).

## **Document Review**

JLARC staff utilized a variety of documents for this review. These included Appropriation Acts from FY 1995 to the present, Governor’s executive budget documents over the same period, and summaries of General Assembly budget actions prepared by staff of the House Appropriations and Senate Finance committees from 1995 to the present. “State of the Commonwealth” speeches by Virginia Governors were also collected and reviewed for the study period. Annual reports from the Departments of Accounts and Taxation were also consulted. Agency-specific and program-specific studies and documents were reviewed, as were reports from legislative and gubernatorial study commissions and panels. State spending reports compiled by the National Association of State Budget Officers were consulted, as were a variety of other documents.

## **REPORT ORGANIZATION**

This chapter provided an overview of budget and spending growth between FY 1995 and FY 2004 and identified some of the major reasons for budget growth. Chapter II identifies over the same period the largest and fastest growing agencies by appropriations and programs by appropriations. Chapter III reviews spending growth in the broad functional areas of State government. Appendixes include the study mandate and tables on appropriations and expenditures.





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## II. Budget Growth in State Agencies and Programs

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This chapter examines budget growth in State government among agencies, programs, and secretarial areas over the past ten years, and also examines the change in employment levels across agencies. While Chapter I of this report examined trends in overall State appropriations, this chapter identifies the largest and fastest growing areas within State government, in terms of final budget appropriations and employment levels. Budget growth within the agencies and programs is further broken down between general and non-general funds

### AGENCY BUDGET GROWTH FROM FY 1995 TO FY 2004

While the State budget has grown by about 66 percent (in nominal terms) since 1995, much of this growth has occurred among a handful of agencies. In fact, 20 agencies (out of more than 140) accounted for more than 90 percent of the growth in the State budget. More than 50 percent of total State budget growth occurred in only four agencies. The reason why much of the growth is accounted for by only a few agencies is that these agencies represent a large portion of the State budget. Total operating appropriations in FY 1995 and FY 2002 are shown in Table 6 and Table 7, respectively. In each of these years, the top 20 largest agencies represented approximately 85 percent of the total State budget.

With few exceptions, the largest agencies in FY 1995 were also the largest agencies in FY 2004. Only three agencies dropped out of the top 20 between 1995 and 2004. Two of these agencies were universities (the College of William and Mary and Old Dominion University). The other agency to drop out was the Medical College of Virginia Hospitals Authority, which (pursuant to legislation) ceased receiving State funding in FY 1998. The new entries to the list include the personal property tax relief program (defined here as an agency), the Department of Criminal Justice Services, and James Madison University. The personal property tax relief program began in 1999 and is now the sixth largest recipient of State appropriations, representing 3.4 percent of the budget in FY 2004.

The Department of Education continued to have the largest agency budget over the period, although its share of the State budget decreased slightly since FY 1995. The Department of Medical Assistance Services (DMAS) and the Department of Transportation (VDOT) continued to rank second and third, respectively, in both years. However, the share of the budget going to DMAS increased over the period from 13.4 percent to 15.3 percent, while the share going to VDOT decreased from 12.0 percent to 11.3 percent. The University of Virginia now ranks fourth among State agencies in total appropriations, as it has surpassed the Department of Social Services since 1995. The University of Virginia is among six institutions of higher education listed in the top 20 agencies for total appropriations.

<b>Table 6</b>			
<b>Largest Agencies, FY 1995</b>			
<b>Total Operating Appropriations (\$ in Millions)</b>			
<b>Rank</b>	<b>Agency</b>	<b>Total Appropriation FY 1995</b>	<b>Percent of Total</b>
1	Department of Education	\$3,037	19.2%
2	Department of Medical Assistance Services	\$2,117	13.4%
3	Department of Transportation	\$1,908	12.0%
4	Department of Social Services	\$836	5.3%
5	University of Virginia	\$823	5.2%
6	Department of Mental Health, Mental Retardation, and Substance Abuse Services	\$574	3.6%
7	Department of Corrections	\$498	3.1%
8	Virginia Tech	\$465	2.9%
9	Medical College of Virginia Hospitals Authority*	\$409	2.6%
10	Virginia Employment Commission	\$343	2.2%
11	Virginia Community College System	\$342	2.2%
12	Virginia Commonwealth University	\$336	2.1%
13	Compensation Board	\$336	2.1%
14	Department of Health	\$320	2.0%
15	Department of Alcoholic Beverage Control	\$231	1.5%
16	George Mason University	\$202	1.3%
17	Department of the Treasury	\$182	1.1%
18	Supreme Court	\$163	1.0%
19	College of William and Mary	\$149	0.9%
20	Old Dominion University	\$137	0.9%
<b>Top 20 Total</b>		<b>\$13,407</b>	<b>84.6%</b>
<b>Total Operating Budget</b>		<b>\$15,854</b>	<b>100.0%</b>
Note: Excludes capital.			
* Became independent of the State in FY 1998.			
Source: JLARC staff analysis of 1995 Appropriation Act.			

### Agencies with Largest Increases in Total Funding

Overall budget growth was concentrated among the traditional core agencies of State government, in addition to the personal property tax relief program. Over 50 percent of the total increase in the State budget was accounted for by only three agencies (the Departments of Medical Assistance Services, Education, and Transportation) and the personal property tax relief program. More than 75 percent of the total increase in the State budget was accounted for by only nine agencies, including the Departments of Social Services and Corrections, and three universities: the University of Virginia, Virginia Tech, and Virginia Commonwealth University. Table 8 lists the agencies that grew the most over the past ten years.

Budget growth in 20 agencies accounted for \$9.6 billion of the \$10.5 billion in total appropriation growth between FY 1995 and FY 2004, which was 91 percent of total growth. The agencies with the largest dollar increases are generally those with the largest appropriations. For example, the three largest agencies in total

<b>Table 7</b>			
<b>Largest Agencies, FY 2004</b>			
<b>Total Operating Appropriations (\$ in Millions)</b>			
<b>Rank</b>	<b>Agency</b>	<b>Total Appropriation FY 2004</b>	<b>Percent of Total</b>
1	Department of Education	\$4,926	18.7%
2	Department of Medical Assistance Services	\$4,030	15.3%
3	Department of Transportation	\$2,991	11.3%
4	University of Virginia	\$1,543	5.8%
5	Department of Social Services	\$1,490	5.6%
6	Personal Property Tax Relief *	\$892	3.4%
7	Department of Corrections	\$792	3.0%
8	Department of Mental Health, Mental Retardation, and Substance Abuse Services	\$728	2.8%
9	Virginia Tech	\$710	2.7%
10	Virginia Commonwealth University	\$569	2.2%
11	Virginia Community College System	\$567	2.2%
12	Compensation Board	\$496	1.9%
13	Virginia Employment Commission	\$484	1.8%
14	Department of Health	\$436	1.7%
15	George Mason University	\$354	1.3%
16	Department of Alcoholic Beverage Control	\$347	1.3%
17	Department of the Treasury	\$298	1.1%
18	Supreme Court	\$267	1.0%
19	Department of Criminal Justice Services	\$266	1.0%
20	James Madison University	\$234	0.9%
<b>Top 20 Total</b>		<b>\$22,421</b>	<b>85.0%</b>
<b>Total Operating Budget</b>		<b>\$26,379</b>	<b>100.0%</b>
Note: Excludes capital.			
* First funded in FY 1999.			
Source: JLARC staff analysis of Chapter 943, 2004 Acts of Assembly.			

appropriations in both 1995 and 2004 also had the largest dollar increases over the period, as each grew by more than one billion dollars. However, while DMAS was second to the Department of Education (DOE) in total appropriations, DMAS slightly outpaced DOE in terms of total appropriation growth.

Five of the 20 agencies with the most growth during the period were institutions of higher education. These institutions accounted for \$1.6 billion or 15 percent of the \$10.5 billion increase for all agencies. All colleges and universities combined accounted for \$1.9 billion, or 18.5 percent, of the total increase in the State budget.

Three additional agencies that ranked among the top 20 in total appropriations growth warrant further attention. The personal property tax relief program, which began in 1999 in order to provide tax relief to Virginia residents, was responsible for the fourth highest area of appropriation growth over the past ten years with nearly \$900 million. The Comprehensive Services for At-Risk Youth and Families (CSA) first received an appropriation of \$104 million in FY 1997 to address the

<b>Table 8</b>		
<b>Agencies with the Most Growth in Total Operating Appropriations FY 1995 to FY 2004 (\$ in Millions)</b>		
<b>Rank</b>	<b>Agency</b>	<b>Change in Total Appropriation</b>
1	Department of Medical Assistance Services	\$1,913.6
2	Department of Education	1,889.1
3	Department of Transportation	1,083.6
4	Personal Property Tax Relief <sup>1</sup>	892.3
5	University of Virginia	720.2
6	Department of Social Services	654.2
7	Department of Corrections	293.7
8	Virginia Tech	244.6
9	Virginia Commonwealth University	233.3
10	Virginia Community College System	225.2
11	Comprehensive Services for At-Risk Youth and Families <sup>2</sup>	204.8
12	Department of Criminal Justice Services	165.5
13	Compensation Board	160.3
14	Department of Mental Health, Mental Retardation, and Sub- stance Abuse Services	153.7
15	George Mason University	152.0
16	Virginia Employment Commission	140.7
17	Department of Human Resource Management <sup>3</sup>	136.4
18	Department of the Treasury	116.6
19	Department of Health	116.5
20	Department of Alcoholic Beverage Control	116.2
<b>Top 20 Total Growth</b>		<b>\$9,612.6</b>
<b>Total Operating Appropriations Growth</b>		<b>\$10,525.6</b>
Note: Excludes capital. <sup>1</sup> First funded in FY 1999. <sup>2</sup> First established as an agency in FY 1997. <sup>3</sup> Includes administration of State employees' health insurance, added to DHRM budget in 2003.		
Source: JLARC staff analysis of the respective Appropriation Acts.		

needs of children with special educational or correctional needs. Prior to 1997, these services were funded through several agencies, including the Departments of Education; Juvenile Justice; Mental Health, Mental Retardation, and Substance Abuse Services; and Social Services. Since 1997, the budget for CSA has increased by 98 percent to \$205 million. Finally, it should be noted that the Department of Human Resource Management (DHRM) appears on the list in Table 8 because the administration of health insurance for State employees was added to the agency's budget in FY 2003. The appropriation to DHRM for the administration of health insurance was \$125 million in FY 2003 and \$135 million in FY 2004. Discounting the added function of DHRM, the agency's budget grew from \$5.9 million in FY 1995 to \$7.3 million in FY 2004.

While most of the agencies with the largest dollar growth in appropriations were also the largest agencies in terms of total appropriations, some of the smaller

agencies had higher growth rates in percentage terms. Table 9 shows the nominal and inflation-adjusted percentage increases for agencies with the highest growth rates. All agencies with appropriations of at least \$5 million in FY 1995 were included in this analysis.

Several of these agencies are not large, and thus modest dollar growth increases may result in large percentage increases. One example of this is the Jamestown-Yorktown Foundation, which received an appropriation of \$5 million in FY 2003 and FY 2004 in preparation for the 2007 quadri-centennial of the Jamestown settlement. The Department of Human Resource Management had by far the highest percentage growth rate due to the addition of the administration of health insurance to the agency's budget, as described above. The Virginia Information Technologies Agency (VITA), which was created in 2002 from the consolidation of several previous technology agencies, had the second highest growth rate. The high growth rate of VITA was primarily the result of appropriations in FY 2003 and FY 2004 of about \$66 million in dedicated special revenue funds for emergency communication systems management.

<b>Table 9</b>			
<b>Agencies with Highest Rates of Growth in Total Operating Appropriations FY 1995 to FY 2004</b>			
<b>Rank</b>	<b>Agency</b>	<b>Nominal Increase</b>	<b>Inflation- Adjusted Increase</b>
1	Department of Human Resource Management	2,314%	1,859%
2	Virginia Information Technologies Agency*	255%	188%
3	Jamestown-Yorktown Foundation	185%	131%
4	Department of Criminal Justice Services	165%	115%
5	Virginia Retirement System	140%	95%
6	Department of Correctional Education	112%	72%
7	Department of Taxation	102%	64%
8	Department of Accounts	99%	62%
9	Public Defender Commission	95%	58%
10	Department of Medical Assistance Services	90%	55%
11	Department of Environmental Quality	89%	54%
12	Department of Military Affairs	89%	53%
13	Christopher Newport University	88%	53%
14	University of Virginia	88%	52%
15	Virginia Workers Compensation Commission	87%	52%
16	James Madison University	79%	45%
17	Department of Social Services	78%	45%
18	George Mason University	75%	42%
19	Department of Juvenile Justice	73%	40%
20	Virginia State Bar	72%	40%

Note: Includes only agencies with at least \$5 million in appropriations in FY 1995. Excludes capital. Personal property tax relief program not included because it received initial funding in FY 1999, precluding calculation of percentage.

\* Did not exist in 1995. Growth based on appropriations to predecessor agencies.

Source: JLARC staff analysis of the respective Appropriation Acts.

Explaining agency-by-agency causes for budget growth is key to understanding total budget growth. In the 2002 and 2003 reports on State spending, JLARC staff analyzed spending growth in several of the larger agencies. The *Interim Report: Review of State Spending* profiles the nine largest agencies, and the *Review of State Spending: December 2003 Update* also discusses factors affecting budget growth in several large agencies.

### **Agencies with the Most Growth in General Funds**

General fund revenues and appropriations are intended for the general purposes of government and are not dedicated or restricted to a specific use. General funds stem primarily from broad statewide taxes such as the income and sales tax, and have broad public interest. The unrestricted nature of these revenues also means that general funds are of particular interest to budget decision-makers. In 2004, the State appropriated \$12.4 billion in general funds, which represented slightly less than half of total appropriations.

General fund budget growth between FY 1995 and FY 2004 was dominated by a few large agencies. In fact, the 20 agencies with the most growth in general fund appropriations (14 percent of all State agencies) accounted for 95 percent of all general fund budget growth over the period (Table 10). The top three agencies in terms of general fund budget growth – the Department of Education, the personal property tax relief program, and the Department of Medical Assistance Services – accounted for 65 percent of total general fund budget growth. The Department of Education alone accounted for 30 percent of total general fund budget growth. While DMAS ranked first in total appropriation growth, it ranked only third in general fund appropriation growth, as nearly half the funding for DMAS comes from federal sources. The personal property tax relief program, which is funded entirely through general funds, ranked second in general fund appropriation growth.

Five public safety-related agencies appear among the top 20 general fund budget growth agencies. These agencies include: the Departments of Corrections, Criminal Justice Services, Juvenile Justice, State Police, and the Compensation Board, which provides funding for local sheriffs and other constitutional officers as well as local and regional jails.

Three institutions of higher education rank among the top 20 general fund growth agencies – the Virginia Community College System (11<sup>th</sup>), George Mason University (15<sup>th</sup>), and Virginia Tech (17<sup>th</sup>). The University of Virginia, which ranked 5<sup>th</sup> in total appropriation growth, experienced only \$11 million in general fund appropriation growth over the ten-year period (compared to \$720 million in total appropriation growth).

The Department of Accounts (DOA) ranked 12<sup>th</sup> with \$76 million in general fund budget growth, increasing from \$74.8 million in FY 1995 to \$150.4 million in FY 2004. The primary reason for the large amount of appropriation growth at DOA is the Revenue Stabilization Fund, which may be used to balance the State budget when there is a shortfall. DOA serves as the conduit for the Fund, and received appropriations for the Fund in the amount of \$103 million in FY 2001, \$187 million in

<b>Table 10</b>		
<b>Agencies with the Most General Fund Appropriation Growth FY 1995 to FY 2004</b>		
<b>(\$ in Millions, Unadjusted for Inflation)</b>		
<b>Rank</b>	<b>Agency</b>	<b>Change in Appropriation</b>
1	Department of Education	\$1,524
2	Personal Property Tax Relief <sup>1</sup>	892
3	Department of Medical Assistance Services	839
4	Department of Corrections	268
5	Comprehensive Services for At-Risk Youth and Families <sup>2</sup>	168
6	Compensation Board	157
7	Department of Criminal Justice Services	140
8	Department of the Treasury	106
9	Supreme Court	104
10	Department of Mental Health Mental Retardation and Substance Abuse Services	103
11	Virginia Community College System	87
12	Department of Accounts	76
13	Department of Juvenile Justice	71
14	Department of State Police	47
15	George Mason University	39
16	Department of Social Services	35
17	Virginia Tech	33
18	Department of Transportation	33
19	Central Appropriations	29
20	Department of Health	29
<b>Top 20 Total Growth</b>		<b>\$4,779</b>
<b>Total General Fund Budget Growth</b>		<b>\$5,014</b>
Note: Excludes capital.		
<sup>1</sup> First funded in FY 1999.		
<sup>2</sup> First established as an agency in FY 1997.		
Source: JLARC staff analysis of the respective Appropriation Acts.		

FY 2002, and \$87 million in FY 2004. Reductions to other programs within the agency offset some of the increase.

Table 11 lists the agencies with at least \$5 million in general fund appropriations in FY 1995 that had the highest percentage growth rates over the ten-year period. The Department of Criminal Justice Services (DCJS) had the highest general fund appropriation growth rate at 178 percent (125 percent inflation-adjusted growth). Much of the increase at DCJS occurred in FY 2000, when financial assistance to localities in the “HB 599 program” increased by nearly \$100 million over the previous fiscal year. This higher level of assistance continued through FY 2004. Another agency in the public safety area – the Department of Correctional Education – ranked second in percentage growth in general funds. Appropriations



<b>Table 11</b>			
<b>Agencies with Highest General Fund Appropriation Growth Rates FY 1995 to FY 2004</b>			
<b>Rank</b>	<b>Agency</b>	<b>Nominal Increase</b>	<b>Inflation- Adjusted Increase</b>
1	Department of Criminal Justice Services	178%	125%
2	Department of Correctional Education	119%	78%
3	Department of Accounts	101%	63%
4	Public Defender Commission	95%	58%
5	Virginia State University	86%	51%
6	Department of Transportation	82%	48%
7	Department of Medical Assistance Services	81%	47%
8	Christopher Newport University	78%	44%
9	Norfolk State University	76%	43%
10	George Mason University	68%	36%
11	Department of Juvenile Justice	67%	36%
12	Supreme Court	64%	33%
13	Department of the Treasury	61%	30%
14	James Madison University	59%	29%
15	Department of Education	59%	29%
16	State Council of Higher Education for Virginia	58%	28%
17	Department of Corrections	58%	28%
18	Department for the Aging	56%	27%
19	The Library of Virginia	56%	27%
20	Central Appropriations	50%	22%

Note: Includes only agencies with at least \$5 million in general fund appropriations in FY 1995. Excludes capital.

Source: JLARC staff analysis of respective Appropriation Acts.

for instruction at correctional facilities increased from \$15 million in FY 1995 to \$42 million in FY 2004, which was likely the result of increased inmate populations. The Departments of Juvenile Justice and Corrections also ranked among the top 20 at 11<sup>th</sup> and 17<sup>th</sup>, respectively.

### **Agencies with the Most Growth in Non-General Funds**

Non-general funds are earmarked for a specific program or objective. Non-general funds typically originate from specific taxes or fees paid by the users of a service, such as motor fuel taxes for highway construction and maintenance, or tuition payments for higher education. Federal funds, which are provided only for specific purposes, also account for a large share of non-general funds. Non-general funds accounted for more than 50 percent of total State appropriations in FY 2004.

Similar to general fund budget growth, non-general fund budget growth was also concentrated among a few agencies. Table 12 lists the agencies with the most non-general fund budget growth between FY 1995 and FY 2004. The top three agencies – DMAS, VDOT, and the University of Virginia – were responsible for more

<b>Table 12</b>		
<b>Agencies with the Most Non-General Fund Appropriation Growth FY 1995 to FY 2004</b>		
<b>(\$ in Millions, Unadjusted for Inflation)</b>		
<b>Rank</b>	<b>Agency</b>	<b>Change in Appropriation</b>
1	Department of Medical Assistance Services	\$1,075
2	Department of Transportation	1,051
3	University of Virginia	709
4	Department of Social Services	619
5	Department of Education	365
6	Virginia Tech	211
7	Virginia Commonwealth University	205
8	Virginia Employment Commission	141
9	Virginia Community College System	139
10	Department of Human Resource Management	137
11	Department of Alcoholic Beverage Control	116
12	George Mason University	113
13	Department of Health	88
14	James Madison University	82
15	Department of Motor Vehicles	63
16	Department of Environmental Quality	62
17	Department of Rail and Public Transportation	55
18	Department of Mental Health, Mental Retardation, and Substance Abuse Services	50
19	Department of Taxation	41
20	The College of William and Mary	40
<b>Top 20 Total Growth</b>		<b>\$5,360</b>
<b>Total General Fund Budget Growth</b>		<b>\$5,511</b>
Note: Excludes capital.		
Source: JLARC staff analysis of the respective Appropriation Acts.		

than half of the total non-general fund growth. The top 20 agencies were accounted for 97 percent of the \$5.5 billion in non-general fund growth.

Much of the non-general fund budget growth in these agencies is outside of the direct control of budget decision-makers, which is characteristic of non-general funds. The Department of Medical Assistance Services received approximately \$2.1 billion in federal funds in FY 2004, which was about twice the amount of federal funds DMAS received in FY 1995. Much of this growth in federal appropriations can be explained by federally-mandated program expansions, prescription drug increases, and other health care cost increases, all of which drive the required State matching funds. VDOT trailed DMAS slightly in non-general fund growth and also experienced an increase in excess of one billion dollars. Growth in VDOT's non-general fund budget reflects growth in revenues from motor fuels taxes as well as increasing federal transportation funds. The University of Virginia ranked third with \$709 million in non-general fund growth and was among seven institutions of

higher education in the top 20. Non-general funds within the colleges and universities consist mainly of tuition and fee payments by students, sponsored (federal) research, and auxiliary enterprise revenue.

Turning to percentage growth in non-general fund appropriations, four agencies experienced inflation-adjusted growth rates in excess of 100 percent (Table 13). The Department of State Police ranked first with a 144 percent increase over the past ten years. Much of this increase was the result of new federal and special funds for crime detection and investigation, as well as for ground transportation system safety (that is, patrolling Virginia's highways). The Virginia Port Authority ranked second in terms of percentage increase, and much of this growth came from transportation funds and special funds to help expand commerce in the Commonwealth. Two agencies in the natural resources secretariat – the Departments of Conservation and Recreation (DCR) and Environmental Quality (DEQ) – ranked third and fifth, respectively. The increase at DCR stems mainly from increased collections in fees from park facilities, while the increase at DEQ is primarily the result of increased federal assistance. The Department of the Treasury ranked fourth, and its high growth rate reflects bond and loan retirement, as well as the fact that non-

Rank	Agency	Nominal Increase	Inflation- Adjusted Increase
1	Department of State Police	201%	144%
2	Virginia Port Authority	185%	131%
3	Department of Conservation and Recreation	183%	130%
4	Department of the Treasury	150%	103%
5	Department of Environmental Quality	141%	96%
6	Virginia Retirement System	138%	94%
7	Department of Criminal Justice Services	118%	77%
8	Department of Military Affairs	117%	76%
9	Department of Social Services	104%	66%
10	University of Virginia	100%	63%
11	Department of Medical Assistance Services	100%	62%
12	Christopher Newport University	94%	58%
13	Virginia Commonwealth University	93%	56%
14	Virginia Community College System	91%	55%
15	Virginia Workers Compensation Commission	87%	52%
16	James Madison University	86%	51%
17	Department of Education	84%	50%
18	Virginia Department for the Visually Handicapped	84%	49%
19	George Mason University	78%	45%
20	Department of Corrections	72%	40%

Note: Includes only agencies with at least \$5 million in non-general fund appropriations in FY 1995. Excludes capital.  
Source: JLARC staff analysis of the respective Appropriation Acts.

general funds account for a small portion of the department's total appropriations (thus, a modest dollar increase resulted in a high percentage increase). Six institutions of higher education also were among the fastest growing agencies in terms of non-general fund appropriations.

### **Factors Explaining Growth in Agencies**

Explaining growth in specific agencies and programs often involves a variety of factors. A case in point is budgetary growth in the Department of Education, which includes the costs of enrollment growth and policy decisions over the period, as well as growth in the amount of sales tax earmarked for education. Three major factors account for most of this growth: the re-benchmarking of State Standards of Quality (SOQ) unit costs, enrollment growth, and funding initiatives.

The re-benchmarking process recognizes, belatedly, rising school division costs. For example, in FY 2004 the State contributed funds toward a teacher salary level for SOQ positions that was about \$6,500 higher than in FY 1995, and this has a budgetary impact. While teacher salary figures used in the State budget did not keep pace with inflation from FY 1995 to FY 2004, the figures still reflected about a 21 percent increase over the period. In addition, the total number of pupils enrolled in the public school system increased by 12 percent over the period. Increases in the "units" of the school system (for example, the number of pupils served) and in unit costs have an interactive effect when combined, leading to a greater percentage increase than is indicated by a sum of the percentage increases. Finally, budget initiatives, particularly in FY 1999, led to increases in funding. State-supported initiatives included the use of Lottery Funds for public education, a school construction grant program, and initiatives to hire additional teachers.

More detailed analyses of several of the large-growth agencies can be found in the prior JLARC State spending reports. For example, the first report (issued in January 2002) provided background information in profiles of nine of the largest agencies.

## **BUDGET GROWTH BY PROGRAM**

All State appropriations are classified according to the program budget structure. The program classification is designed to assist in the planning and analysis of the State budget and to monitor the activities of State government. Budget programs provide information on how funds are spent, regardless of the State agency to which funds are appropriated. While some programs may be confined to a single agency, other programs may be distributed across multiple agencies. For example, the Higher Education Instruction and Support program is distributed across all colleges and universities.

Growth in budget programs, similar to growth in State agencies, was concentrated among a few large programs dealing with the core activities of State government. Namely, the core activities of health care, education, and transportation experienced the most growth over the period between FY 1995 and FY 2004 (Table

14). Of the total appropriation growth in the State budget, 82 percent resulted from increases in 20 programs.

The Medicaid program experienced the largest appropriation growth over the period and was responsible for 16 percent of total state budget growth. Seven education programs (Standards of Quality, higher education instruction and support, financial assistance for special state revenue sharing, higher education – financial assistance for education and general services, higher education auxiliary enterprises, financial assistance for public education (K-12), and higher education student financial assistance) were among the top 20 in total appropriation growth. These education programs accounted for nearly one-third of total growth. Highway construction and maintenance combined for nine percent of total State budget growth.

**Table 14**  
**20 Largest Program Increases**  
**All Funds, FY 1995 to FY 2004**

Rank	Agency	Change in Appropriations (\$ in millions)	Percent of Total
1	Medical Assistance Services (Medicaid)	\$1,696	16%
2	Financial Assistance for Public Education (Standards of Quality)	931	9%
3	Personal Property Tax Relief Program*	892	8%
4	Higher Education Instruction and Support	706	7%
5	Financial Assistance for Special State Revenue Sharing (Local Share of Sales Tax)	705	7%
6	Highway System Acquisition and Construction	657	6%
7	Child Support Enforcement Services	403	4%
8	Higher Education – Financial Assistance for Educational and General Services	377	4%
9	Higher Education Auxiliary Enterprises	310	3%
10	Highway System Maintenance	296	3%
11	Protective Services	238	2%
12	Crime Detection Investigation and Apprehension	204	2%
13	Secure Confinement	186	2%
14	Bond and Loan Retirement and Redemption	184	2%
15	Financial Assistance for Public Education (Categorical)	178	2%
16	Employment Assistance Services	141	1%
17	Personnel Management Services	138	1%
18	Financial Assistance for Individual and Family Services	132	1%
19	Financial Assistance to Localities-General	122	1%
20	Higher Education Student Financial Assistance	122	1%
<b>Top 20 Total</b>		<b>\$8,618</b>	<b>82%</b>
<b>Total Operating Budget</b>		<b>\$10,526</b>	<b>100%</b>
Note: Excludes capital.			
* Program newly established during the period.			
Source: JLARC staff analysis of the respective Appropriation Acts.			

The personal property tax relief program had the third largest appropriation increase. As this program was newly established in 1999, the \$892 million in appropriation growth simply represents the program appropriation in FY 2004. The local share of the sales tax had the fifth largest program increase. This program represents the portion of the sales tax (one percent) that is dedicated to local school funding.

Child support enforcement services grew by \$403 million over the period, which ranked sixth among all programs. The vast majority of this growth was in “special” funds (that is, child support payments by individuals). Because the State collects and distributes child support enforcement through the Department of Social Services, these payments are considered to be State non-general funds. Growth in child support enforcement over the period reflects the State’s increased ability to collect child support payments.

### **GROWTH IN SECRETARIAL BUDGETS**

The secretarial system in Virginia was established by the General Assembly in 1972 and consisted of six secretariats broadly reflecting the major functions of the executive branch. The system was set in place to improve the Governor’s ability to manage the size and scope of State government. Over the years, the responsibilities of the secretaries have been amplified by statute and executive orders. Each Governor has had broad latitude to define the secretaries’ roles and responsibilities. The General Assembly has also altered the structure and alignment of the secretarial system by merging, separating, and creating secretariats.

All but one of the secretaries have broad budgetary duties, with statutory language requiring them to direct the formulation of a comprehensive budget for their respective areas and agencies. The Secretary of Education has more limited budgetary responsibilities, with no statutory role over the budgets of the institutions of higher education, community colleges, or other education agencies. Instead, the statutes state that the Education Secretary “may direct the preparation of alternative policies, plans and budgets for education,” and is to formulate a comprehensive budget for cultural affairs.

While the alignment of agencies within secretariats has changed over time, this review compares budget growth across the secretariats as they exist in 2004. By keeping the secretariats static over time, budget growth over the period can be measured among the broad sectors as they are currently defined. For example, even though the Department of Information Technology was transferred from the Administration secretariat to the Technology secretariat before being incorporated into the Virginia Information Technologies Agency, appropriations for these services are counted within Technology appropriations regardless of how they were classified in previous years. However, there still exist some limitations to this analysis, as it does not capture sub-agency programs that have been transferred from one agency to another. For example, when the central garage responsibilities were transferred from VDOT to the Department of General Services, appropriation growth in the Transportation secretariat would be reduced while growth in the Administration secretariat would increase.

Keeping in mind that some of the budgetary changes by secretarial area are due to the realignment of agencies, Table 15 shows the budget growth by secretary from FY 1995 to FY 2004. The Technology secretariat, while being the smallest secretariat, had the most percentage growth. Because the Technology secretariat is relatively small, a modest dollar growth resulted in a high percentage growth. Also, as noted previously in this chapter, much of this growth is explained by the special appropriations in FY 2003 and FY 2004 for emergency communication systems management.

The Administration secretariat had the second highest growth rate over the period. The majority of this growth occurred within the Compensation Board and the Department of Human Resource Management, within which funding for the administration of health insurance was consolidated in FY 2003. By subtracting the \$135 million appropriated for the administration of health insurance, the inflation-adjusted growth within the Administration secretariat would have been 17 percent.

Growth in the Finance secretariat, which ranked third, is primarily due to two things: growth in bond payments, which are appropriated to the Department of the Treasury (\$270 million in FY 2004 compared to \$87 million in FY 1995), and the budgetary practice, adopted in FY 1996, of placing appropriations for the revenue stabilization fund in the Department of Accounts budget. In FY 2004, for example, \$87 million or 56 percent of the Department of Accounts' appropriation was for this item. Deducting these amounts from both the respective FY 1995 and FY 2004 agency budgets, appropriations actually decreased for this secretariat over the ten-year period.

Growth in the Health and Human Resources secretariat is primarily explained by increases in Medicaid, child support enforcement, and the addition of the

**Table 15**  
**Budget Growth by Secretarial Area**  
**FY 1995 to FY 2004**

<b>Secretarial Area</b>	<b>FY 2004 Appropriation (in millions)</b>	<b>Nominal Increase From FY 1995</b>	<b>Inflation-Adjusted Increase from FY 1995</b>
Technology	\$ 43	138%	93%
Administration	701	79%	45%
Finance	564	77%	44%
Health and Human Resources	7,131	77%	44%
Public Safety	1,899	69%	37%
Natural Resources	254	66%	35%
Transportation	3,404	56%	27%
Education	9,970	54%	25%
Commerce and Trade	736	27%	3%

Note: Agency appropriations are aligned according to 2004 secretarial structure. Excludes capital.

Source: JLARC staff analysis of Appropriation Acts.

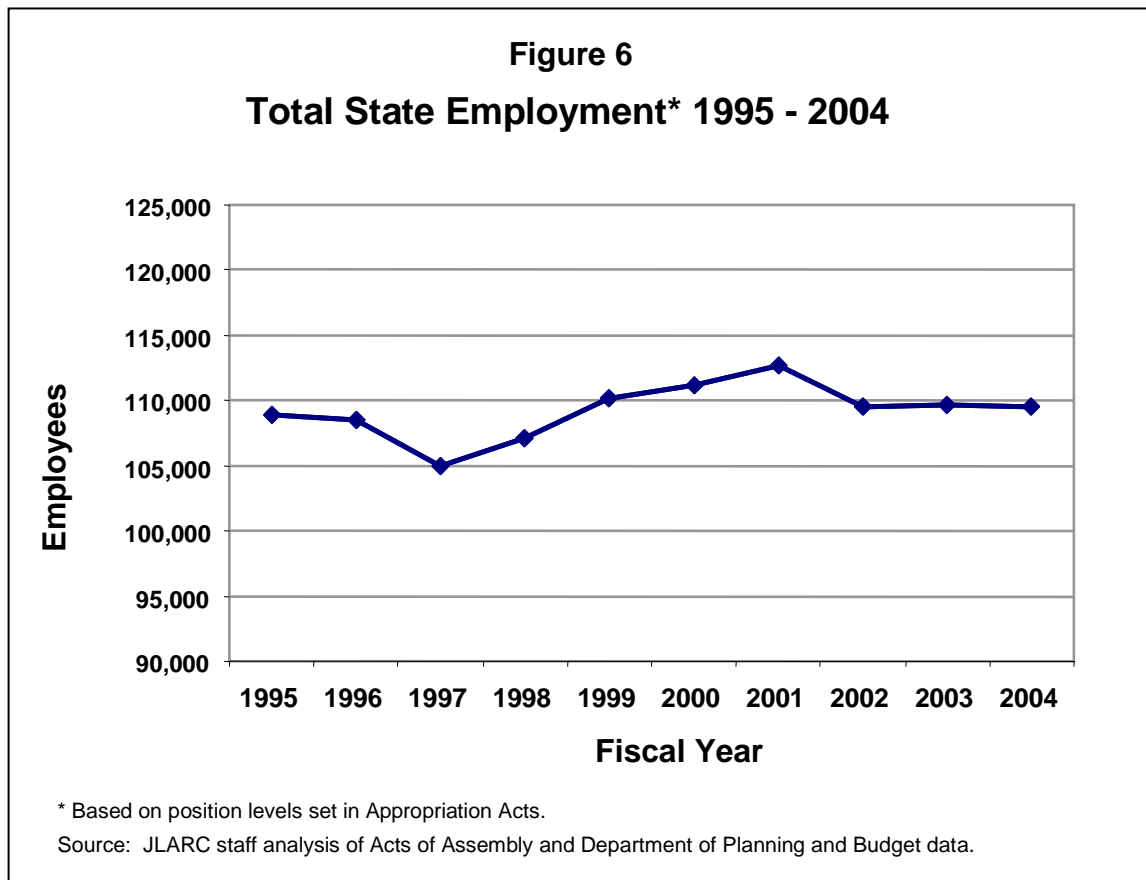
Comprehensive Services for At-Risk Youth and Families. The Education secretariat, which had appropriations nearly three times greater than the next largest secretariat, ranked eighth among the nine secretariats in terms of the rate of growth.

### TOTAL STATE EMPLOYMENT HAS INCREASED SLIGHTLY

Since 1995, State government employment levels as reflected by the maximum position levels set in the Appropriation Acts have risen only slightly overall, gaining a total of 632 employees (0.58 percent increase) over the 10-year period. Maximum employment levels dipped as low as 104,925 positions during the 1997 fiscal year, as the Workforce Transition Act reduced staffing at many agencies and eliminated vacant positions, and the Medical College of Virginia Hospital Authority became independent of the State. State employment levels then rose steadily to their highest level of the period in 2001 with 112,685 positions before falling quickly back under the 110,000 mark for the final three years of the period (Figure 6). The agencies with the largest employment change (either positive or negative, in terms of the Appropriation Act employment ceilings) are shown in Table 16, and a discussion of employment changes in several of these agencies is included below.

### Higher Education

Of the top 20 agency employment level changes of the ten-year period, seven are institutions of higher learning. With the exception of the Medical College of Virginia (MCV) Hospitals Authority, all colleges and universities experienced an





increase in State employment. The MCV Hospital Authority's decrease in employment stems from the 1996 MCV Hospital Authority Act, which separated MCV from Virginia Commonwealth University (VCU), and removed State responsibility for the MCV Hospitals Authority. In addition to increased autonomy from state controls after 2001, employees of the Hospital Authority were no longer considered State government positions.

As total enrollment at colleges has increased, institutions of higher education have required more employees to deal with the increased workload. The University of Virginia, Virginia Community College System, George Mason University, Virginia Tech, James Madison University, and VCU gained a total of 4,870 positions from FY 1995 to FY 2004. This translates to an average 17 percent increase in employment levels across these six institutions during this period.

### **Corrections and Law Enforcement**

The state-responsible inmate population as well as the probation and parole caseload has increased significantly from FY 1995 to FY 2004 (see prior Table 3). Accordingly, five of the top 20 agency changes in employment level involved agencies dealing with law enforcement and/or correctional facility management, including the Department of Corrections, Department of Juvenile Justice, Department of State Police, Department of Correctional Education, and Department of Criminal Justice Services. In addition, new adult and juvenile correctional facilities have been built over this period, creating additional staffing needs. The Department of Criminal Justice Services (DCJS) saw the largest relative increase over this time period with a 251 percent increase in positions from FY 1995 to FY 2004. The majority of this increase came in FY 1997, when the Division of Forensic Laboratory Services was transferred from the Department of General Services (DGS) to DCJS.

### **Information Technology**

FY 2003 saw the creation of a new agency that would consolidate State government information technology responsibilities. The Virginia Information Technologies Agency (VITA) combined the Department of Information Technology (DIT) and the Department of Technology Planning (DTP), and at the same time eliminated vacant and duplicate positions in the two former agencies. VITA employment should grow significantly over the next few years as IT positions in many agencies become VITA employees

### **Department of Veterans Services**

In 2003, HB1774 was passed which consolidated veterans benefit claims support and the veterans care center and cemetery services into the newly created Department of Veterans Services, headed by the Commissioner of Veterans Services. The bill also established the Veterans Service Board to advise and make recommendations to the Commissioner regarding future projects for the benefit of the State's veterans and to establish policies coordinating the delivery of veterans' services.

<b>Table 16</b>			
<b>Largest Agency Employment Changes, FY 1995- FY 2004</b>			
<b>Total Position Level*</b>			
<b>Rank</b>	<b>Agency</b>	<b>Employment Level Change 1995-2004</b>	<b>Percent Change from 1995</b>
1	Medical College of Virginia Hospitals Authority	(4,321)	- 100%
2	University of Virginia	1641	17%
3	Department of Corrections	1638	15%
4	Virginia Community College System	1270	18%
5	Department of Health	(1,052)	- 23%
6	Department of Transportation	(1,048)	- 9%
7	Department of Mental Health Mental Retardation and Substance Abuse Services	(1,005)	- 9%
8	Department of Juvenile Justice	600	33%
9	George Mason University	527	22%
10	Virginia Tech	521	8%
11	James Madison University	482	27%
12	Virginia Commonwealth University	431	10%
13	Department of Information Technology	(394)	- 100%
14	Virginia Information Technology Agency	367	100%
15	Supreme Court	349	17%
16	Department of State Police	343	15%
17	Department of Veterans Services	282	100%
18	Department of Correctional Education	273	55%
19	Department of General Services	(269)	- 29%
20	Department of Criminal Justice Services	259	251%

\* As set in Appropriation Acts.  
Source: JLARC staff analysis of the respective Appropriation Acts.

### Supreme Court

For budget purposes, the Supreme Court of Virginia incorporates the Supreme Court itself and all inferior courts including the Court of Appeals, Circuit Courts, General District Courts, Juvenile and Domestic Relations District Courts, Combined District Courts, and Magistrate System. While total position levels increased from FY 1995 to FY 2004 by 17 percent (349 positions), that increase was concentrated in the General District Courts (139.5), Juvenile and Domestic Relations Courts (129.1), and Combined District Courts (36.15). Of the three, Juvenile and Domestic Relations Courts saw the largest relative increase in employment with a 30 percent rise over the ten-year period.

### Employment Reductions under the Workforce Transition Act of 1996

Only three agency reductions in staffing that did not involve shifting responsibilities to other agencies (such as DGS and DIT) or transition out of government (MCV) appear in the top twenty changes in employment levels over the ten-year period. The Department of Health, Department of Transportation, and Department of Mental Health, Mental Retardation and Substance Abuse Services each

lost around 1,000 positions during the period, with most of those positions being lost during the 1996-97 implementation of the Workforce Transition Act. The Workforce Transition Act eliminated many vacant positions and encouraged contracting for services formerly provided by State employees.

## CONCLUSION

Appropriations grew by \$10.5 billion between FY 1995 and FY 2004, a 66 percent increase before adjusting for inflation. Growth was concentrated in just a few budget items. Three agencies (out of 144), in addition to the personal property tax relief program, accounted for 55 percent of this overall growth: the Departments of Medical Assistance Services, Education, and Transportation. In terms of general fund growth, two agencies, in addition to the personal property tax relief program, accounted for 65 percent of the ten-year growth: the Departments of Education and Medical Assistance Services. Six budget programs (out of approximately 195) accounted for 53 percent of the overall appropriations growth over the period.

While a variety of factors, including inflation, a growing population and economy, and recent State initiatives account for much of the increase, the fact that a few large agencies and programs dominated the State budget over ten years reflect core spending priorities of the State. The personal property tax relief program is a recent addition to the core spending priorities, as it has grown rapidly. By FY 2004 it was the sixth largest item in the State budget, and accounted for eight percent of the ten-year growth.

The State employment level grew much more slowly than the State budget over the past ten years, as employment increased by less than one percent. Employment growth in the areas of higher education, public safety, and the judicial system were mostly offset by reductions through the Workforce Transition Act and the elimination of the Medical College of Virginia Hospital Authority as a State agency.

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### III. Spending Growth

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Total State spending (including operating, capital, and bond proceeds) increased from \$16.8 billion in FY 1995 to \$28.2 billion in FY 2004. This \$11.4 billion increase represents growth of 68 percent in nominal terms, 36 percent in inflation-adjusted terms, and 19 percent in per capita, inflation-adjusted terms.

Increases in spending at the broad functional level of government varied considerably, from an increase of \$192 million for the resource and economic development function, to a \$3.5 billion increase for the broad individual and family services function. The broad governmental functions were established when Virginia adopted program budgeting in the 1970s, and continue to be used in the State's budget process. The different functions include administration of justice, capital projects, education, enterprises, general government, individual and family services, transportation, and resource and economic development.

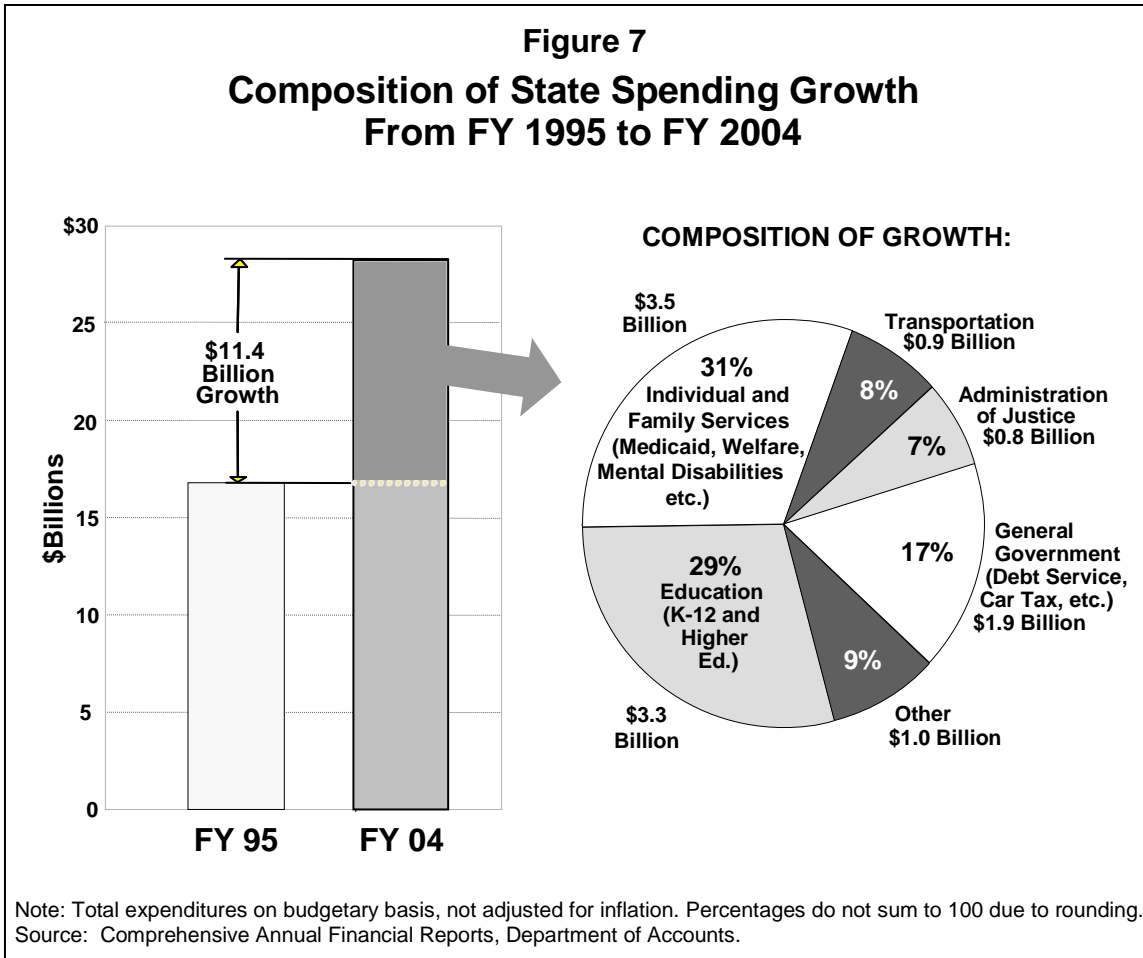
One key to understanding budget and spending growth is the concentration of growth in a few areas. For example, two of the eight broad functional areas – education, and individual and family services – accounted for \$6.8 billion or 60 percent of the total spending growth since FY 1995. As reported in past JLARC State spending reports, these areas have accounted for the majority of spending and the majority of spending growth for most of the past 20 years.

Chapter II discussed *appropriations* growth. This chapter discusses *spending* growth since FY 1995 for the broad governmental functions, notes the effects of the revenue stabilization fund and the personal property tax relief program on overall spending growth, and identifies the largest budget programs and the programs with the highest rates of spending growth since FY 1999.

Expenditure data is available from FY 1995 only for the eight broad governmental functions (Appendix C), and includes spending on capital projects as well as deposits into the revenue stabilization fund and funding of the personal property tax relief program. Agency and program-level spending data is available only from FY 1999.

#### SPENDING GROWTH BY FUNCTIONAL AREA

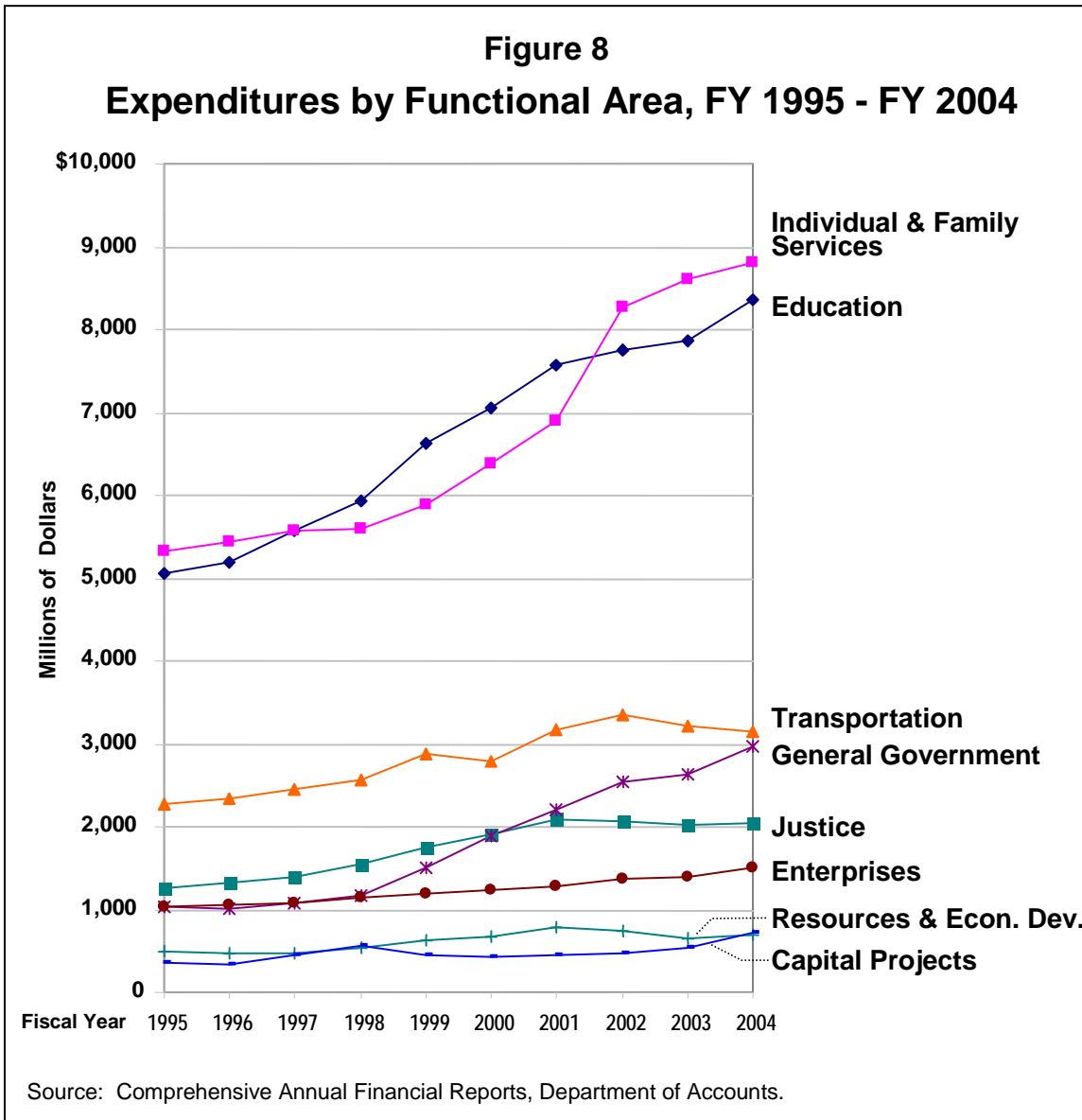
The \$11.4 billion increase in State spending represented growth of 68 percent, as noted above. Of that total amount of growth, the broad functional area of individual and family services saw the largest increase over the period, \$3.5 billion, or 31 percent of the total growth (Figure 7). The education function, which includes the institutions of higher education as well as elementary and secondary, saw the second-largest share of the growth – with an increase over the period of \$3.3 billion, or 29 percent of total State spending growth. This was followed by general govern-



ment (up \$1.9 billion, including the personal property tax relief program), transportation (up \$882 million), and administration of justice (up \$784 million). The “other” category in Figure 7 includes enterprises (up \$465 million), capital projects (up \$355 million), and resource and economic development (up \$192 million).

Figure 8 tracks functional spending year by year over the period, and shows that spending on two functional areas – education, and individual and family services – dominated State spending. In five of the ten years, spending on education outpaced spending on all other functions. In the other five years, spending on individual and family services exceeded spending on education, including FYs 2002, 2003, and 2004.

The transportation function remained in 3<sup>rd</sup> place in overall spending throughout the period. Administration of justice moved down from 4<sup>th</sup> to 5<sup>th</sup>, trading places with general government, which grew due to the personal property tax relief program begun in FY 1999.



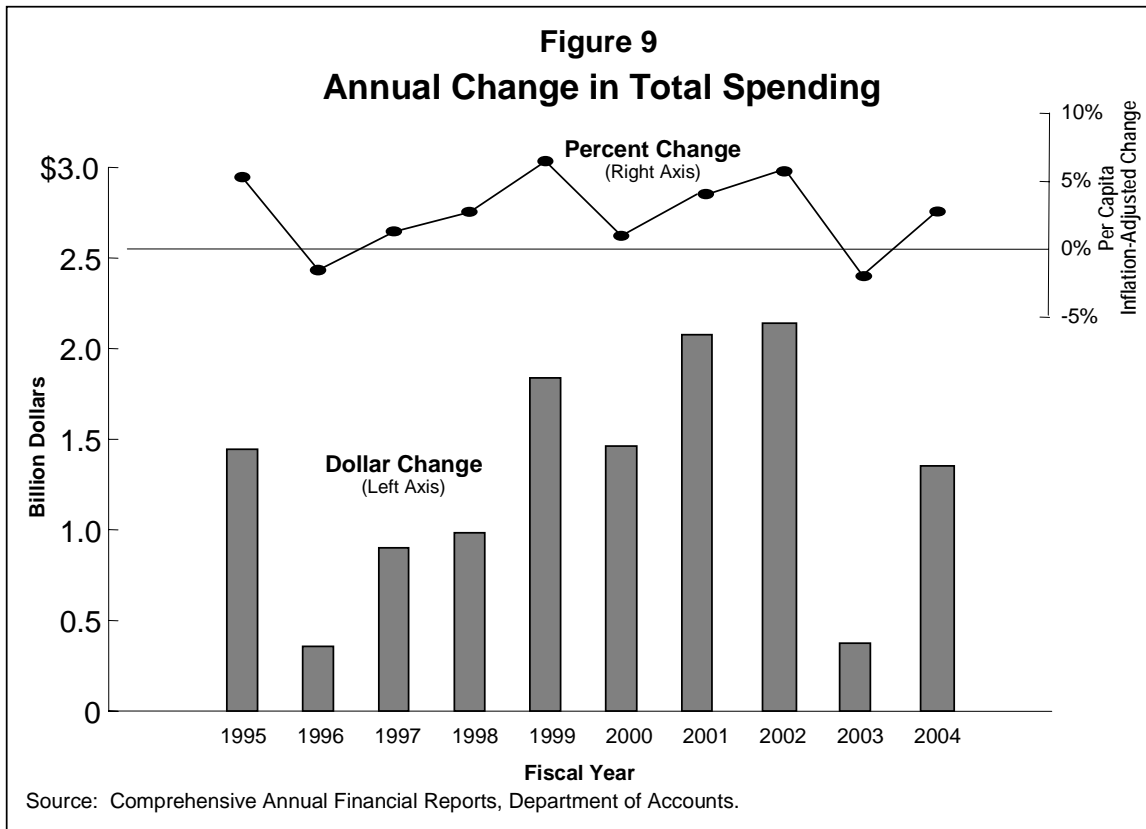
**Adjusting for Population Growth and Inflation**

When adjusted for population growth and inflation, total State spending increased 22 percent over the period from FY 1995 through FY 2004 (Table 17). Two functional areas grew faster than this average, including general government (up 108 percent), followed by capital projects (up 45 percent). Several major initiatives were added to the general government function during this period, including the personal property tax relief program, the revenue stabilization fund, and the consolidation of health insurance benefits for State employees. Three other broad functions saw substantially slower real growth over the period: enterprises (up five percent), and transportation and resources and economic development (both up just two percent over the period).

<b>Table 17</b>					
<b>Spending Change by Function</b>					
<b>FY 1995 to FY 2004 (Dollars in Millions)</b>					
<b>Function</b>	<b>FY 1995 Spending (unadjusted<sup>1</sup>)</b>	<b>FY 2004 Spending (unadjusted<sup>1</sup>)</b>	<b>Dollar Change (unadjusted<sup>1</sup>)</b>	<b>Percent Change (PCIA<sup>2</sup>)</b>	<b>Average Annual Percent Change (PCIA<sup>2</sup>)</b>
General Government	\$1,037	\$2,969	\$1,932	108%	8.8%
Capital Projects	355	710	355	45	5.8
Individual and Family Services	5,316	8,814	3,498	21	2.4
Administration of Justice	1,250	2,034	784	21	2.1
Education	5,067	8,363	3,296	17	2.2
Enterprises	1,034	1,499	465	5	0.6
Transportation	2,265	3,147	882	2	0.4
Resource and Economic Development	501	693	192	2	0.6
<b>Total</b>	<b>\$16,825</b>	<b>\$28,231</b>	<b>\$11,406</b>	<b>22%</b>	<b>2.3%</b>
<sup>1</sup> Unadjusted means not adjusted for either inflation or population growth. <sup>2</sup> PCIA means per-capita, inflation-adjusted. Source: JLARC staff analysis of cash basis expenditures from Comprehensive Annual Financial Reports issued by the Department of Accounts and correspondence with the Department.					

Annual changes in total spending are shown in Figure 9. Total unadjusted spending increased each year between FY 1995 and FY 2004 (Figure 9 bars). Annual increases exceeded \$1.0 billion per year in five of the nine fiscal years of data: 1999, 2000, 2001, 2002, and 2004.

Adjusting these dollar amounts for population growth and inflation indicates a more complicated pattern (Figure 9 line). In real, inflation-adjusted terms, a negative growth rate occurred in two of the past nine fiscal years. Real spending decreased in two fiscal years: 1996 and 2003. A near-zero percent growth rate occurred in fiscal year 2000. These flat or negative growth years coincide with decreases in revenue and their associated economic downturns in the early 1980s and early 1990s.



Per-capita inflation-adjusted spending grew relatively fast – over five percent – in three of the nine years: 1995, 1999, and 2002. The FY 2000 per-capita inflation-adjusted growth would likely have been in this fast-growing group as well, except that the U.S. Census Bureau reported faster population growth than the estimates for prior years indicated. This higher growth rate for the one year thus tended to reduce the per capita change calculations between FYs 1999 and 2000.

### STATE SPENDING AND TWO LARGE INITIATIVES

Two Virginia initiatives had a significant effect on State general fund spending over the past decade: the revenue stabilization fund and the personal property tax relief program. This section examines the effects of these initiatives on overall spending trends.

#### Revenue Stabilization Fund

The revenue stabilization (or “rainy day”) fund was a 1991 JLARC recommendation adopted by the General Assembly and subsequently approved by Virginia voters in a 1992 amendment to the *Constitution of Virginia*. The first appropriation to the fund occurred in FY 1995. The fund operates in a manner similar to an escrow account, in that deposits made into the fund are earmarked or set aside on the books of the Comptroller. Deposits are not paid out or expended in the usual sense, but rather are reserved (along with interest) to be used at a future time.



This feature distinguishes the revenue stabilization fund from all other operating appropriations, which must be spent during the biennium. The revenue stabilization fund is more like a savings account for the Commonwealth, which can be accessed only under very limited conditions specified in the *Constitution of Virginia*. Thus, deposits into the fund commenced in FY 1995, although conditions permitting withdrawal did not occur until FY 2002. Conditions for withdrawal of funds essentially require a substantial shortfall between forecasted general fund revenue and appropriations. Withdrawals in any one year are capped (again, by language in the *Constitution of Virginia*) at one-half of the balance in the fund, and at one-half the difference between general fund appropriations and the general fund revenue forecast. Deposits and withdrawals are shown in Table 18. The balance on June 30, 2004 was approximately \$340 million.

Due to the fact that payments into the fund are not expenditures in the usual sense, and given the size of the annual deposits, it makes sense to separate out the deposits into the fund and examine the impact on the long-term spending trend.

### Personal Property Tax Relief Program

A second major initiative is the personal property tax relief program, also called the “car tax” program. This program was approved by the 1998 General Assembly and received the first appropriation for FY 1999. As displayed in Table 19, this program quickly grew to be a large budget item.

<b>Table 18</b>		
<b>Revenue Stabilization Fund Deposits &amp; Withdrawals</b>		
<b>(Dollars in Millions)</b>		
<b>FY</b>	<b>Deposits</b>	<b>Withdrawals</b>
1995	\$79.0	--
1996	--	--
1997	66.6	--
1998	58.3	--
1999	123.8	--
2000	194.1	--
2001	103.3	--
2002	187.1	\$467.7
2003	--	247.5
2004	87.0	128.5

Note: Deposits are made with general funds.  
Source: JLARC staff analysis of Appropriation Acts; also monthly reports by Secretary of Finance.

**Table 19**  
**Personal Property Tax Relief Program**

FY	Percent Phaseout*	Expenditures (in Millions)
1999	12.5	\$181.3
2000	27.5	322.1
2001	47.5	604.1
2002	70	826.2
2003	70	856.7
2004	70	881.1

\*Of the first \$20,000 of vehicle value. Vehicles valued at \$1,000 or less are reimbursed 100 percent.  
Note: Expenditures are cash basis, general funds.  
Source: Department of Accounts.

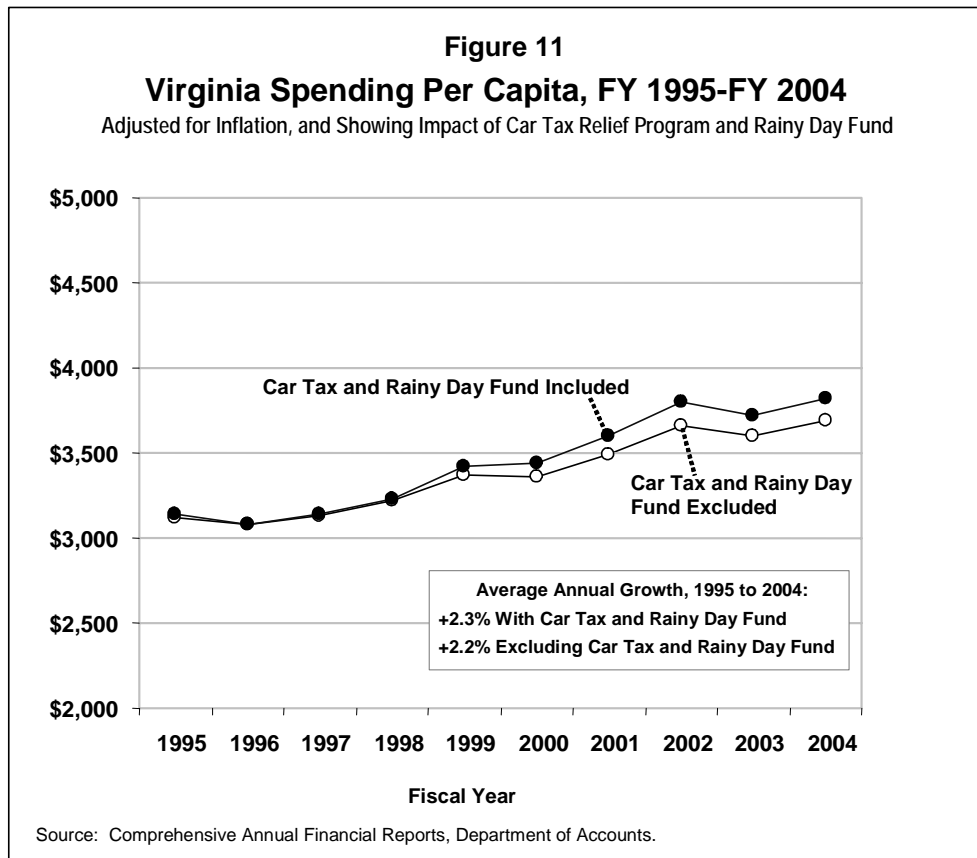
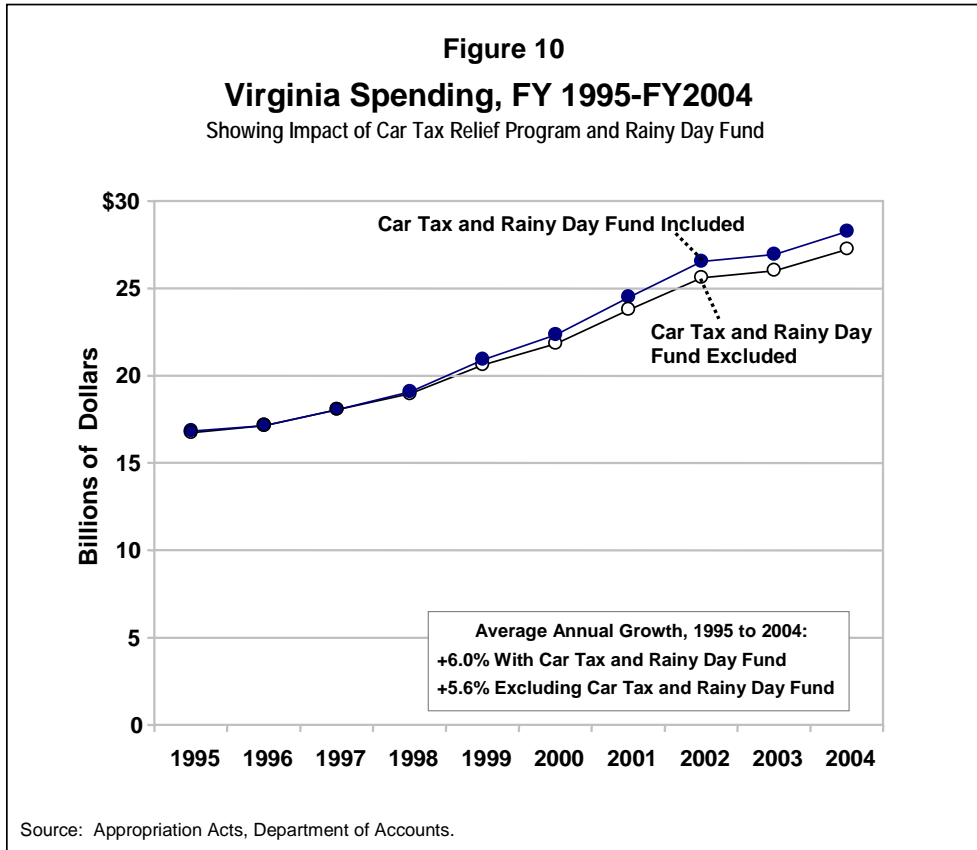
Appropriations to and expenditures from this program are also different from those to other State agencies and activities, because these State funds are used as tax relief for individuals who own and are taxed on vehicles up to \$20,000 in value. Although categorized for State accounting purposes as financial assistance to localities, the intent of the program is to reduce property taxes paid by individual vehicle owners. The result of the program is to reduce the amount of taxes vehicle owners must pay to their local governments, while compensating the local governments for the lost revenue.

### **Adjusting for the Impact of These Two Large Initiatives**

These two initiatives have had a significant effect on State spending because they involve large dollar amounts. Because they are not “spending” in the usual sense, it is useful to see their effects on overall State spending trends.

Figure 10 illustrates the effect of subtracting these two items from total State expenditures. Taking out these two items reduces the FY 1995 – FY 2004 growth rate from 68 percent to 63 percent, and reduces the average annual growth rate from 6.0 percent to 5.6 percent.

The effect on spending of these two programs remains significant after controlling for inflation and population growth throughout the period (Figure 11). Although inflation and population growth account for much of the overall growth in State spending over the ten-year period from FY 1995 to FY 2004, the two large initiatives also help explain some of the growth. Real per-capita growth over the period was 22 percent. By subtracting out the revenue stabilization deposits and the personal property tax program, real growth over the period was 18 percent.



## SPENDING GROWTH IN BUDGET PROGRAMS SINCE FY 1999

A review of spending growth in the approximately 250 programs that make up the Virginia budget indicates that growth rates vary considerably across programs, and that a few large programs dominate spending in Virginia. This variation contributes to the spending patterns seen at the broad governmental function level.

A key constraint in analyzing Virginia spending data at the program level is that such information is readily available only since FY 1999. Data is not available to examine longer-term spending trends at the budget program level.

### Largest and Fastest Growing Programs

As noted earlier, growth tends to be concentrated in a relative handful of the largest programs. Half of State spending and half of the five-year growth in State spending are accounted for by the ten budget programs listed in Table 20. The four budget programs with more than \$1 billion in expenditures were the core programs of Medicaid, education, highway construction, and higher education instruction.

As noted previously, the State's major spending priorities have remained fairly stable over time. For example, the top five programs in FY 2004 (as shown in

<b>Table 20</b>			
<b>Budget Programs With the Most Expenditures</b>			
<b>FY 2004</b>			
<b>(All Funds, Dollars in Millions, Not Adjusted for Inflation)</b>			
<b>Rank</b>	<b>Program Name</b>	<b>FY 2004</b>	<b>Growth Since FY 1999</b>
1	Medical Assistance Services	\$3,989	\$1,435
2	Financial Assistance for Public Education (Standards of Quality)	2,879	563
3	Highway System Acquisition & Construction	1,403	-38
4	Higher Education Instruction	1,250	164
5	Financial Assistance for Public Education – Special State Revenue Sharing (Sales Tax)	994	193
6	Personal Property Tax Relief	881	700
7	Highway System Maintenance	879	123
8	Higher Education-Education & General Ser- vices	824	318
9	Employment Assistance Services	820	426
10	Personnel Management Services (State Em- ployee Health Insurance Administration)	772	219
	<b>Total of 10 Largest Programs</b>	<b>\$14,599</b>	<b>\$4,102</b>
	<b>Percentage of Total</b>	<b>52%</b>	<b>56%</b>

Source: JLARC staff analysis of expenditure data.

Table 20) occupied the same ranks in FY 1999, and four of the remaining programs were within three places of their FY 1999 rank. Only one of the top ten programs moved significantly over the period. This was the personal property tax relief program, which was the 26<sup>th</sup> largest budget program in FY 1999. By FY 2004 it had moved to sixth place in total spending as the phase-out of the tax continued.

As noted in Table 21, the medical assistance services (Medicaid) program showed the largest total dollar growth over the FY 1999 to FY 2004 period, and accounted for the largest share of spending growth. Medicaid accounted for 20 percent of all spending growth over the five-year period.

The second largest spending increase over the period was in the personal property tax relief program. This program was phasing out up to 70 percent of the tax during this period, having received its first appropriation in FY 1999. It not only accounted for the second largest amount of total growth – \$700 million – but also had the highest growth rate among the larger budget programs, with a 386 percent growth rate between FY 1999 and FY 2004.

Rank	Program	Spending Growth	Share of Spending Growth
1	Medical Assistance Services (Medicaid)	\$1,435	20%
2	Personal Property Tax Relief Program	\$700	10%
3	Financial Assistance for Public Education (SOQ)	\$563	8%
4	Employment Assistance Services	\$426	6%
5	Higher Education – Education & General Services	\$318	4%
6	Financial Assistance for Public Education (Categorical)	\$221	3%
7	Personnel Management Services (Employee Health Benefits)	\$219	3%
8	Child Support Enforcement Services	\$213	3%
9	Financial Assistance for Special State Revenue Sharing (Sales Tax)	\$193	3%
10	Higher Education Auxiliary Enterprises	\$169	2%
	<b>Total, 10 Programs</b>	<b>\$4,456</b>	<b>61%</b>

Note: Analysis limited to budget programs with expenditures of more than \$50 million in FY 1999.  
Source: JLARC analysis of Department of Accounts data.

State funding for the Standards of Quality (SOQ) had growth of \$563 million over the period, the third highest amount, as re-benchmarking efforts occurred twice during the period. Employment assistance services had the fourth-highest growth over the period, primarily due to increases in the duration and the maximum benefit amounts granted under the unemployment program, actions taken in the wake of the terrorist attacks on September 11, 2001.

### **Virginia Spending Compared to Other States**

The 2003 JLARC *State Spending* Report noted that, using Census Bureau data, Virginia's per capita spending held the same rank (36<sup>th</sup>) relative to the other 49 states in 1981 and again in 2000. This was primarily because spending by other states during this period kept pace with or even exceeded Virginia's spending increases.

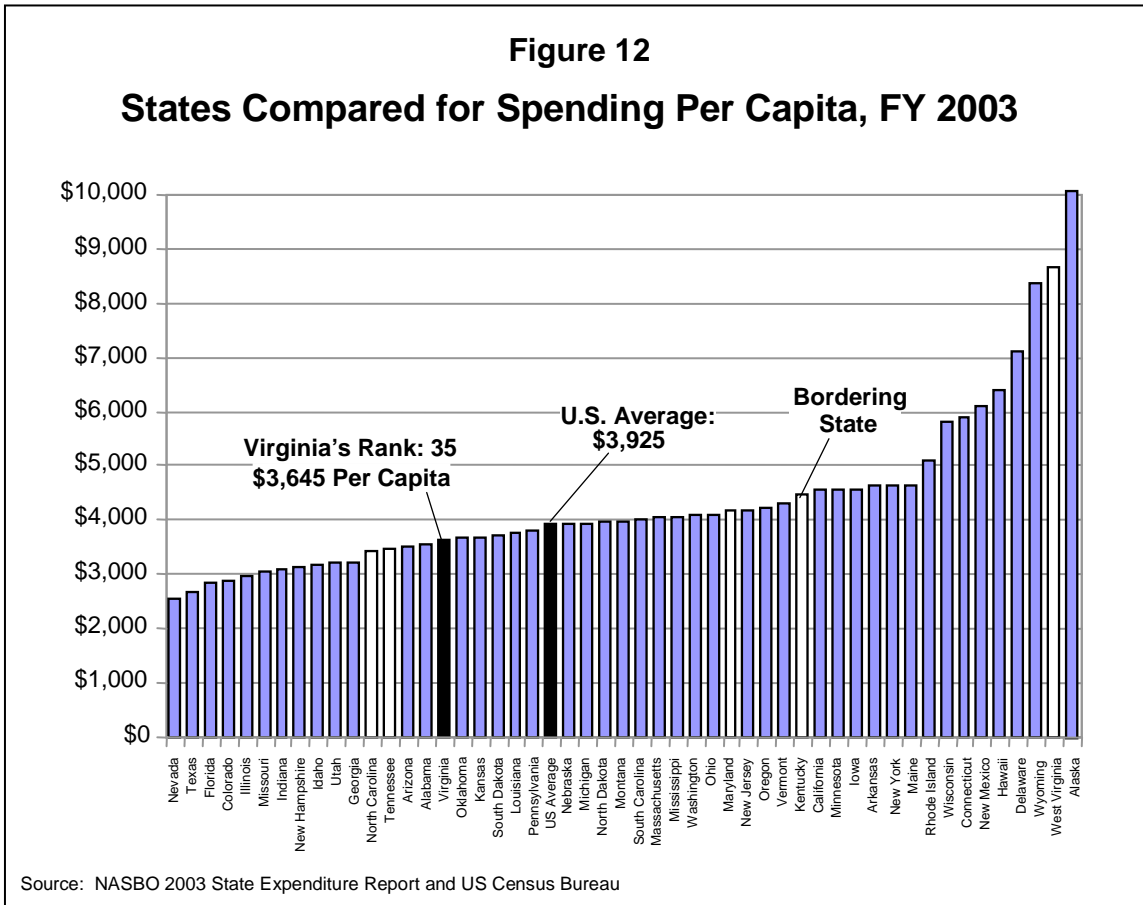
Using the most current data available from the U.S. Census Bureau, Virginia ranked 38<sup>th</sup> in this measure of spending in 2002. The highest Virginia has been on this measure was in 1988 through 1990, when the State ranked 32<sup>nd</sup>. The lowest Virginia ranked during that period was in 1994 and 1995, when the Commonwealth ranked 46<sup>th</sup> among the states.

Using more recent data from a different source, Virginia ranked 31<sup>st</sup> among the 50 states in FY 2002 on State spending per capita, dropping to 35<sup>th</sup> in FY 2003. Figure 12 (next page) displays the FY 2003 State rankings. State expenditures (including capital spending) for the 50 states, beginning with FY 2002, are collected and published by the National Association of State Budget Officers. The actual dollar amount of spending per capita remained almost static between the two years (\$3,646 in FY 2002 and \$3,645 in FY 2003) despite an increase of \$350 million in State spending, because the State's population grew by an estimated 100,000, or 1.35 percent.

Virginia's neighbor states moved slightly in the rankings from FY 2002 to FY 2003. North Carolina, for example, moved from 37<sup>th</sup> in FY 2002 down to 39<sup>th</sup> in FY 2003, and Maryland moved down from 19<sup>th</sup> to 20<sup>th</sup>. West Virginia occupied the highest rank of any of Virginia's neighboring states, moving from third in per capita state spending in FY 2002 to second in FY 2003, behind only Alaska.

## **CONCLUSION**

Like growth in appropriations, most spending growth occurred in the State's core activities. These include the broad functional areas of individual and family services, education, and transportation. The general government function displayed the highest long-term growth rate in per-capita, inflation-adjusted terms, primarily due to rapid growth in the personal property tax program. Although Virginia has had significant budget and expenditure growth, so have the other states.



As a result, Virginia’s place among the states in terms of per capita state spending has remained nearly static over the long term. In FY 2003, Virginia ranked 35<sup>th</sup> out of the 50 states in per-capita spending, while (using a different data source) Virginia had ranked 36<sup>th</sup> in per-capita spending in FY 1981.

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## Appendixes

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## Appendix A

### Study Mandate

*Code of Virginia § 30-58.3. Annual Report on State Spending.* A. No later than November 15 of each year, the Commission shall provide to the Governor and the General Assembly an annual report on state spending that shall include, among other things, (i) an identification and analysis of spending functions and programs that could be consolidated with other programs without diminishing the quality of the services provided to the citizens of the Commonwealth; (ii) an identification and analysis of those spending functions or programs which no longer have a distinct and discernible mission or are not performing their missions efficiently; (iii) an identification and analysis of the state programs that have had the largest impact on the growth of state spending over the prior five biennia, in dollar terms; (iv) an identification and analysis of the programs growing the fastest in percentage terms; (v) for the programs identified as the largest or fastest-growing, comparisons of the growth in spending on those programs to the rate of increase in inflation and the growth in populations served by those programs over a comparable time period; (vi) an analysis of the causes for the growth in spending on the largest and fastest-growing programs and whether the growth in spending appears rationally related to the rates of increase in inflation, tax relief measures, mandated expenditures, populations served, or any other related matter; and (vii) such other related issues as it deems appropriate.

B. All agencies of the Commonwealth shall provide assistance to the Commission in the preparation of this report, upon request.



## Appendix B

### Formula-Driven Spending

The use of formulas to determine appropriations has contributed to the growth of State expenditures. These formulas may tie spending to variables such as the number of people below the poverty level, or the population in a locality, which tends to remove spending discretion from the direct control of budget decision-makers. Some formulas are established in the *Code of Virginia*, but others come as a result of participating in a federal program like Medicaid and are almost entirely outside the control of the State. There are various types of these formulas that drive appropriations of a range of sizes, from items as large as the \$881 million (FY2004) personal property tax (car tax) relief program, to smaller items such as the reimbursement of localities for housing juveniles.

#### Links to Federally-Set Standards

Many formulas are linked to standards set not by the State, but at the federal level. Often, this is a condition of receiving federal funding for a certain program, as in the case of Medicaid. Federal requirements affect the Medicaid appropriation in at least two ways: through the calculation of the State's share -- the percentage of the appropriation which the State must contribute, and by the use of the federally-defined poverty level to determine who is eligible to receive benefits under the program. This means that after the decision is made to participate in the program, the State's share of the cost is largely outside of state-level discretion. This results in the consistent, large general fund increases in funding for Medicaid as medical costs rise and more individuals become eligible for the program.

#### Per-Capita Formulas

There are two types of per-capita formulas that affect general fund expenditures. One type sets a minimum level of service per individual by mandating that a certain number of employees are required for a certain number of served individuals:

...the [Compensation] Board shall allocate the additional jail deputies provided in this appropriation using a ratio of one jail deputy for every 3.0 beds of operational capacity (Item 64, paragraph E)

While this per-capita formula is tied to the population directly served (inmates), some per-capita formulas are tied to the general population in a given locality. For example, *Code of Virginia* §15.2-1609.1 sets the number of State-supported sheriff's deputies in any county at a ratio of one deputy for every 1,500 of the locality's population. This requires the State to fund additional local deputies as population rises.

Per-capita formulas are also used to ensure an appropriate level of compensation for constitutional officers by linking their salaries to the size of the constituency they serve. This is used for sheriffs, treasurers, registrars, and certain other State-supported local employees. As populations rise in Virginia, the amount localities are reimbursed for these individuals will rise accordingly.

### **Per Diems**

This type of formula comes in the form of a fixed daily reimbursement for local entities such as correctional facilities. It is used to maintain a consistent level of service per individual per day and to ensure equitable compensation for state-level responsibilities performed by localities. For example:

The Department of Juvenile Justice shall reimburse localities, pursuant to §66-15, *Code of Virginia*, at the rate of \$50 per day for housing juveniles who have been committed to the Department. (Chapter 1042, Item 446, Paragraph C)

While expenditures for juvenile detention are relatively small (\$273,250 in FY2004), per diem payments are also used to reimburse localities for jail operations, driving significantly more spending (\$55,986,114 in FY2004).

### **Cost of Living Adjustments**

Cost of living adjustments (COLAs) make yearly adjustments to compensate for inflation and prevent inflation creep from depleting the real value of a set compensation each year. COLAs have been used in the calculation of salary increases as well as room and board payments made to foster parents.

### **Scheduled Phase-Outs**

Phase-outs provide for the decrease or increase in program funding over time, usually on a percentage basis. Once established, appropriations may be driven for several years by a prescribed rate. Phase-outs have been used to gradually eliminate state funding for some programs. An example is the Innovative Technology Authority. The 2002-2004 Appropriation Act (in Item xxx) stated that

It is the intent of the General Assembly that total general fund support for the Innovative Technology Authority be phased out over a period of time – 25.0 percent by fiscal year 2005, 50.0 percent by fiscal year 2006, 75.0 percent by fiscal year 2007, and 100.0 percent in subsequent years.

While this statement of intent is essentially non-binding, general fund appropriations to this entity were reduced by more than 50 percent from FY 2002 to FY 2004. Furthermore, the 2004-2006 Appropriation Act showed appropriations for

the Innovative Technology Authority reduced to 30 percent of the FY 2002 appropriations along with a new statement that all general fund support for this authority will cease by FY2008.

Another example of a scheduled phase-out is the personal property tax relief program, which was originally intended to eliminate the local car tax by 2002 through a series of yearly reductions. These yearly reductions constituted State expenditures, because the phase-out provided that the State would reimburse localities for their forgone tax revenue. Though this program was established in *Code of Virginia* §58.1-3524, the statute was amended in 2004 so that after 2005, the maximum annual amount appropriated for this item will be set at \$950 million, essentially freezing the formula-driven nature of this spending.



## Appendix C

### Ten Largest General Fund Increases Each Year, 1995-2004

(Biennial totals; \$ in millions)

#### 10 Largest Increases in 2004-2006 Budget made by 2004 General Assembly

Based on Money Committee Summary of 9/13/04

Rank	Agency	Program	GF
1.	DOE	Changes to SOQ Funding	\$839.4
2.	DOE	SOQ Funding Revisions (Chapters 939 and 955, 2004 <i>Acts of Assembly</i> )	\$326.1
3.	Colleges and Universities	Provide Base Adequacy Funding for Colleges and Universities	\$175.8
4.	DOE	Update Benefit Contribution Rates for SOQ-Related Positions	\$168.0
5.	DOE	Increase in Direct Aid Due to Net Increase of 1/8 Cent Sales Tax and Other Sales Tax Adjustments	\$148.7
6.	Treasury	Additional FY 2006 Revenue Stabilization Fund Deposit	\$87.0
7.	DMAS	Medicaid Utilization and Inflation	\$84.8
8.	Central Accounts	3% Salary Increase for State Employees	\$79.4
9.	DOE	Finish Phase-in of Support positions, Fix Rollover of Fringe Costs	\$66.9
10.	Central Accounts	Fund Increased Health Benefit Premiums for State Employees	\$66.0
Sub-total, Top 10			\$2,042.1
Total of All General Fund adjustments, 2004 Session			\$2,561.0
Top 10 as Percent of Total			80%

#### 10 Largest Increases in 2002-2004 Budget made by 2003 General Assembly

Based on Money Committee Summary of 5/13/03

Rank	Agency	Program	GF
1.	DMAS	Medicaid Funding for Utilization and Inflation	\$142.4
2.	Central Accounts	Maintain Car Tax Reimbursement at 70%	\$127.6
3.	DOE	Provide Additional Lottery Proceeds to School Divisions	\$44.6
4.	Central Accounts	2.25% Salary Increase for State Employees, Faculty and State-Supported Local Employees	\$38.5
5.	CSA	Fund Mandated Foster Care and Special Education Services	\$35.7
6.	DOE	Update Costs of the Standards of Quality Programs	\$31.7
7.	DOE	2.25% Teacher Salary Increase	\$27.5
8.	Central Accounts	Technical-Spread Central Accounts Reduction	\$26.8
9.	DOC	Replace Out-of State Inmate Revenue with GF	\$24.0
10.	DMAS	Fund Indigent Health Care at Teaching Hospitals	\$18.4
Sub-Total, Top 10			\$517.2
Total of All General Fund Adjustments, 2003 Session			\$717.9
Top 10 as Percent of Total			72.0%

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**10 Largest Increases in 2002-2004 Budget made by 2002 General Assembly**

Based on Money Committee Summary of 4/25/02

<b>Rank</b>	<b>Agency</b>	<b>Program</b>	<b>GF</b>
1.	DMAS	Provide Funding for Utilization and Inflation	\$609.1
2.	DOE	Update Costs of the Standards of Quality Programs	\$379.9
3.	VDOT	Deposit GF into Priority Transportation Fund	\$146.6
4.	CSA		
5.	Central Accounts	Fund Mandated Foster Care and Special Education Services FY2004 Compensation Reserve for all State and State Supported Local Employees	\$137.7 \$101.4
6.	Central Accounts	Increase Health Benefit Premiums for State Employees (11% Average increase)	\$82.6
7.	DOE	End Deduction of Locally-Generated Revenues (JLARC Tier 1)	\$74.8
8.	Central Accounts	2.5% Bonus or Paid Vacation for State Classified employees and equivalent for faculty(August 2001)	\$63.4
9.	Compensation Board	Provide Funding for Local and Regional Jail per diem payments	\$62.7
10.	DOE	Phase-in State Share of Administrative Positions	\$58.3
	Sub-total, Top 10		\$1,716.5
	Total of All General Fund Adjustments, 2000 Session		\$2,213.0
	Top 10 as Percent of Total		77.6%

**[No Budget Changes Made by 2001 General Assembly]**

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**10 Largest Increases in 2000-2002 Budget made by 2000 General Assembly**

Based on Money Committee Summary of 3/22/00

<b>Rank</b>	<b>Agency</b>	<b>Program</b>	<b>GF</b>
1.	Central Accounts	Personal Property Tax Relief Program	\$878.0
2.	DOE	Fully Fund Direct Aid (SOQ, Incentive Funds, Categoricals)	\$497.7
3.	VDOT	Stabilize & Update 6-year Construction Program	\$307.3
4.	Treasury	Revenue Stabilization Fund FY01 & FY02	\$266.4
5.	DMAS	Medicaid- Increased Utilization & Inflation	\$173.8
6.	Central Accounts	Salary Increase, State Employees (3.25% @11/25/00)	\$127.3
7.	Capital Outlay	Maintenance Reserve	\$100.0
8.	DOE	2.4% Teacher Salary Increase @ 12/1/00	\$88.9
9.	Capital Outlay	Infrastructure/Life Safety Projects	\$63.7
10.	Colleges & Universities	Maintain Faculty Salaries @60% of Peers	\$59.7
	Sub-total, Top 10		\$2,562.8
	Total of All General Fund Adjustments, 2000 Session		\$3,672.8
	Top 10 as Percent of Total		69.8%



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**10 Largest Increases in 1998-2000 Budget made by 1999 General Assembly**

Based on Money Committee Summary of 3/8/99

<b>Rank</b>	<b>Agency</b>	<b>Program</b>	<b>GF</b>
1.	DOE	Re-direct Lottery Profits to Localities + Hold Harmless	\$275.6
2.	DCJS	HB599	\$98.9
3.	Treasury	Revenue Stabilization Fund	\$79.1
4.	Colleges & Universities	20% Tuition Reduction for Va. Undergraduates	\$75.4
5.	DEQ	Water Quality Improvement Fund Payment	\$45.2
6.	DMHMRSAS	Community Services for Mentally Ill & Mentally Retarded	\$41.4
7.	Central Accounts	State Employee 4% Salary Increase, State-Paid Local Employees: 2.25% in FY2000	\$38.6
8.	DOE	Teacher Salary Increase, 6% @ 1/4/00	\$39.8
9.	Various	Year 2000 Compliance	\$34.8
10.	Central Accounts	Replace Special Funds for Capital	\$19.9
	Sub-Total, Top 10		\$748.7
	Total of All General Fund Adjustments, 1999 Session		\$1,215.1
	Top 10 as Percent of Total		61.6%

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**10 Largest Increases in 1998-2000 Budget made by 1998 General Assembly**

Based on Money Committee Summary of 3/30/98

<b>Rank</b>	<b>Agency</b>	<b>Program</b>	<b>GF</b>
1.	Central Accounts	Personal Property Tax/School Construction	\$533.0
2.	DOE	SOQ Accounts Updated/Sales Tax Revenue	\$350.2
3.	Treasury	Revenue Stabilization Fund FY99 & FY00	\$238.8
4.	Central Accounts	State & Local Employee Pay Increase Dec 98+99	\$150.0
5.	DMAS	Medicaid Utilization & Inflation	\$111.7
6.	DOE	Teacher Salaries: 2.25% each year	\$97.1
7.	Colleges & Universities	Faculty Salaries: Move Toward 60th Percentile	\$72.5
8.	Capital Outlay	Maintenance Reserve	\$51.3
9.	Non-States	Non-State Agencies	\$46.6
10.	DOE	K-3 Reduced Class Size/Enrollment/All Schools	\$45.5
	Sub-Total, Top 10		\$1,696.7
	Total of All General Fund Appropriation Adjustments, 1998 Session		\$3,007.0
	Top 10 as Percent of Total		56.4%

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**10 Largest Increases in 1996-1998 Budget made by 1997 General Assembly**

Based on Money Committee Summary of 3/5/97

<b>Rank</b>	<b>Agency</b>	<b>Program</b>	<b>GF</b>
1.	Central Accounts	State & Local Employee Pay Increase, Transition to Lag Pay	\$45.8
2.	DOC	New Prisons, Additional Probation Officers & Services	\$39.6
3.	Comp. Services Act	Caseload Increases & Cost Containment	\$27.8
4.	DOE	Teacher Salaries (4.0% @ 1/1/98)	\$19.7
5.	Colleges & Universities	Faculty Salaries (average 5.5% 1/1/98)	\$18.7
5.	DJJ	Juvenile Correctional Center Costs	\$18.7
7.	Treasury	Revenue Stabilization Fund	\$17.7
8.	Compensation Board	Jail Staffing, Per Diems, Expanded Jail Contracting	\$15.5
9.	DEQ	Water Quality Improvement Fund	\$15.0
10.	DSS	Develop & Implement ADAPT	\$10.9
	Sub-Total, Top 10		\$229.4
	Total of All General Fund Appropriation Adjustments, 1997 Session		\$439.9
	Top 10 as Percent of Total		52.1%

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**10 Largest Increases in 1996-1998 Budget made by 1996 General Assembly**

Based on Money Committee Summary of 3/22/96

<b>Rank</b>	<b>Agency</b>	<b>Program</b>	<b>GF</b>
1.	DOE	State Share of SOQ	\$406.4
2.	DMAS	Medicaid Utilization & Inflation	\$123.0
3.	Treasury	Revenue Stabilization Fund (2 years)	\$107.3
4.	Colleges & Universities	Faculty Salary Increase (Yr 1: 5% average; Yr 2: 2.0%)	\$79.6
5.	Central Accounts	Classified Salary Increase (Yr1: 4.35%; Yr2: 2.0%)	\$73.5
6.	DOE	School Employee Salary Increase (Yr1: 1.75%; Yr2: 2.0%)	\$70.0
7.	Treasury	VPBA/GO Bonds/Regional Jails	\$48.1
8.	DOE/CSA	Comprehensive Services Act-Additional State Funding	\$39.9
9.	Compensation Board	Staff for New Jails	\$25.9
10.	DMAS	Rehabilitation Lawsuit	\$25.3
	Sub-Total, Top 10		\$999.0
	Total, All "Major" General Fund Increases (over \$1 million)		\$1,537.6
	Top 10 as Percent of Total		65.0%

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**10 Largest Increases in 1994-1996 Budget made by 1995 General Assembly**

Based on Money Committee Summary of 5/31/95

<b>Rank Agency</b>	<b>Program</b>	<b>GF</b>
1. Central Accounts	Second Payment on Harper Settlement	\$70.0
2. DOC	Increased Double Bunking; New Facilities	\$44.6
3. DOE	Restore Cuts in Direct Aid to Education	\$22.2
4. Compensation Board	Jail Per Diems; Added Jail Staff	\$19.3
5. Central Accounts	Restore Classified Employees' Salary Increase	\$16.2
6. DYFS (DJJ)	Local Youth Detention Construction & Operations	\$12.6
7. VPI&SU	Restore Cooperative Extension, Ag & Forestry Research	\$12.2
8. DSS	Federal Mandates: Day Care/Job Training/Wage & Tax Withholding	\$10.9
9. DOC	Local & Regional Jail Construction	\$10.8
10. Compensation Board	Restore funds: Local Treasurers & Commissioners of Revenue	\$8.7
Sub-total		\$227.5
Total of All General Fund Appropriation Adjustments, 1995 Session		\$433.8
Top 10 as Percent of Total		52.4%

## Appendix D

### Virginia State Expenditures by Governmental Function (Dollars in Millions, Unadjusted for Inflation)

Fiscal Year	Education	Administration of Justice	Individual and Family Services	Resource and Economic Development	Transportation	General Government	Enterprises	Capital Projects	Total Expenditures
1981	1,916	339	1,853	145	924	290	285	158	5,909
1982	2,049	430	1,992	156	732	284	306	148	6,095
1983	2,170	481	2,044	165	830	230	432	178	6,530
1984	2,357	502	2,058	174	903	232	453	171	6,849
1985	2,633	549	2,191	200	1,064	269	485	146	7,536
1986	2,961	626	2,387	224	1,331	296	508	170	8,502
1987	3,256	692	2,573	267	1,494	349	576	198	9,405
1988	3,539	763	2,837	290	1,716	370	607	256	10,378
1989	3,878	857	3,095	348	1,825	390	726	271	11,389
1990	4,169	964	3,389	402	1,913	417	765	280	12,298
1991	4,333	1,020	3,989	405	1,907	397	885	190	13,126
1992	4,325	1,034	4,439	389	1,812	382	941	208	13,530
1993	4,599	1,070	4,860	381	1,670	398	957	167	14,102
1994	4,758	1,143	5,047	419	1,833	893	1,012	277	15,382
1995	5,067	1,250	5,316	501	2,265	1,037	1,034	355	16,825
1996	5,195	1,326	5,445	480	2,330	1,008	1,065	332	17,181
1997	5,568	1,387	5,562	482	2,449	1,088	1,085	460	18,081
1998	5,941	1,550	5,594	539	2,573	1,174	1,140	553	19,064
1999	6,622	1,745	5,888	624	2,867	1,514	1,198	444	20,902
2000	7,058	1,914	6,385	673	2,797	1,880	1,230	428	22,365
2001	7,570	2,091	6,897	790	3,158	2,198	1,286	451	24,441
2002	7,742	2,069	8,275	743	3,359	2,546	1,375	466	26,575
2003	7,875	2,021	8,608	659	3,209	2,625	1,397	532	26,926
2004	8,363	2,034	8,814	693	3,147	2,969	1,499	710	28,231

Expenditures are on a budgetary or cash basis. Includes all operating and capital spending as well as expenditure of bond proceeds.  
Sources: Comprehensive Annual Financial Reports; Department of Accounts' correspondence for FY02–FY04 data.

## Appendix E

### Final Legislative Operating Appropriations By Fund (Dollars in Millions, Unadjusted for Inflation)

Fiscal Year	Total	General	Special	Higher Education Operating	Commonwealth Transportation	Enterprise	Trust and Agency	Debt Service	Dedicated Special Revenue	Federal Trust	Total Non-General
1981	5,713	2,687	189	549	982	206	133	22	15	930	3,026
1982	6,033	2,904	212	614	968	217	181	24	15	898	3,129
1983	6,477	3,111	249	748	949	248	219	22	24	908	3,366
1984	6,841	3,268	271	834	971	254	235	31	25	952	3,573
1985	7,682	3,753	251	911	1,092	214	339	37	29	1,057	3,929
1986	8,269	4,032	299	984	1,174	217	393	44	31	1,097	4,237
1987	9,351	4,599	333	1,144	1,384	219	405	100	31	1,135	4,751
1988	10,021	4,932	423	1,203	1,618	218	333	84	33	1,178	5,089
1989	11,383	5,619	575	1,386	1,673	227	487	77	44	1,296	5,765
1990	11,836	5,989	668	1,464	1,598	228	428	39	46	1,377	5,847
1991	12,620	6,315	676	1,631	1,553	294	401	80	58	1,612	6,305
1992	12,858	6,140	775	1,806	1,600	296	380	42	59	1,760	6,717
1993	13,927	6,402	842	2,087	1,728	300	467	34	64	2,004	7,526
1994	14,686	6,777	878	2,228	1,906	303	386	34	68	2,105	7,909
1995	15,854	7,356	937	2,395	1,948	359	419	104	76	2,260	8,498
1996	16,291	7,597	915	2,487	1,919	371	449	108	78	2,368	8,694
1997	17,131	8,134	918	2,570	1,953	365	447	87	134	2,522	8,997
1998	17,621	8,715	940	2,219	2,106	366	463	92	123	2,596	8,905
1999	19,962	9,967	938	2,471	2,706	391	486	104	142	2,757	9,995
2000	21,369	11,093	1,029	2,489	2,597	399	486	108	140	3,028	10,276
2001	23,323	12,284	1,156	2,616	2,785	429	614	119	245	3,074	11,039
2002	23,483	12,014	1,202	2,704	2,876	428	767	121	250	3,120	11,469
2003	24,983	12,105	1,324	3,240	2,680	566	898	167	285	3,718	12,878
2004	26,379	12,370	1,352	3,575	3,194	590	893	171	258	3,976	14,009
Change 1981-2004	20,666	9,683	1,163	3,026	2,212	384	760	149	243	3,046	10,983
% Change 1981-2004	362%	360%	615%	551%	225%	186%	571%	677%	1,620%	328%	363%
Annual Average Change	6.9%	7.0%	9.3%	8.7%	5.6%	5.1%	10.0%	19.0%	15.1%	6.6%	7.0%

Source: Final Appropriation Act for each biennium (typically, "Caboose" bills), Acts of Assembly, Department of Planning and Budget.

## Appendix F

### Final Legislative Operating Appropriations by Secretarial Area (Dollars in Millions, Unadjusted for Inflation)

Fiscal Year	Admin. & Finance	Admin- stration	Commerce & Resources	Economic Dev./ Commerce & Trade	Education	Finance	Health & Human Resources	Natural Resources	Tech- nology	Transportation & Public Safety	Public Safety	Trans- portation
1981	182		110		2,211		1,449				455	1,072
1982	182		107		2,378		1,500				490	1,064
1983	223		124		2,665		1,576				580	1,049
1984	217		131		2,918		1,677				594	1,080
1985		203	472		3,214	91	1,586			1,750		
1986		209	485		3,552	89	1,691			1,873		
1987		247		446	4,013	103	1,844	82		2,261		
1988		253		450	4,240	107	1,927	84		2,584		
1989		313		543	4,721	120	2,355	125		2,814		
1990		327		552	5,051	126	2,560	161		2,738		
1991		363		522	5,271	137	2,957	160			987	1,783
1992		343		524	5,317	143	3,220	172			1,005	1,769
1993		366		602	5,721	152	3,620	174			1,003	1,892
1994		379		555	5,954	196	3,828	181			1,038	2,077
1995		402		611	6,497	318	4,083	153			1,126	2,148
1996		403		634	6,727	328	4,150	196			1,186	2,121
1997		426		614	6,747	403	4,397	178			1,280	2,188
1998		453		639	7,042	423	4,504	208			1,348	2,358
1999		499		670	7,908	527	4,811	265	17		1,519	2,855
2000		530		668	8,325	574	5,360	275	19		1,690	2,751
2001		596		720	8,780	555	5,830	288	20		1,928	3,222
2002		578		713	8,968	659	6,079	246	22		1,911	3,034
2003		708		737	9,553	468	6,752	254	64		1,898	2,955
2004		701		736	9,970	564	7,131	254	43		1,899	3,404

Note: This table reflects the varying organizational structure and agency assignments of the Governor's Secretaries over the period. Details will not sum to total appropriations because of omissions. For example, the Judicial and Legislative departments are not shown, nor are the independent agencies, central accounts, or the Executive Offices. However, the amounts shown average about 95% of the total appropriation each year.

Source: Final Appropriation Act for each biennium (typically, "Caboose" bills), Acts of Assembly, Department of Planning and Budget.

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## JLARC Staff

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*DIRECTOR:* PHILIP A. LEONE

● *DEPUTY DIRECTOR:* GLEN S. TITTERMARY

*DIVISION CHIEFS:* HAROLD E. GREER, III

ROBERT B. ROTZ

---

*SECTION MANAGERS:*

PATRICIA S. BISHOP, FISCAL & ADMINISTRATIVE SERVICES

JOHN W. LONG, PUBLICATIONS & GRAPHICS

GREGORY J. REST, RESEARCH METHODS

● WALTER L. SMILEY, FISCAL ANALYSIS

---

*PROJECT TEAM LEADERS:*

● ARIS W. BEARSE

ASHLEY S. COLVIN

JUSTIN C. BROWN

ERIC H. MESSICK

NATHALIE MOLLIET-RIBET

---

*PROJECT TEAM STAFF:*

JANICE G. BAAB

WENDY N. BROWN

EILEEN T. FLECK

MICHELLE HEBERT-GIFFEN

ELLEN M. JACKSON

JENNIFER N. JENKINS

PAULA C. LAMBERT

● BRAD B. MARSH

JASON W. POWELL

KIMBERLY A. SARTE

TRACEY R. SMITH

CHRISTINE D. WOLFE

KENT S. WYATT

---

*ADMINISTRATIVE AND RESEARCH SUPPORT STAFF:*

JOAN M. IRBY

BETSY M. JACKSON

---

● Indicates JLARC staff with primary assignment to this project

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