



Review of State Spending: 2011 Update



In Brief

Virginia's operating budget increased by 66 percent between fiscal years 2002 and 2011—a 29 percent growth in general funds and a 105 percent growth in non-general funds. These longer term budget trends mask the decline experienced by the general fund in recent fiscal years.

Adjusting for the effects of inflation and population growth, the general fund declined five percent over the ten-year period while the non-general fund and the total budget increased by 51 percent and 23 percent, respectively. The State's budget has also become more dependent on non-general funds, as the share of the budget derived from such funds increased from 48 percent (\$11.2 billion) in FY 2002 to 60 percent (\$23.5 billion) in FY 2011.

Most of the ten-year, \$15.5 billion growth remains concentrated in core functions of State government: health care, education, and transportation. For example, 54 percent of all budget growth occurred in just four agencies: the Department of Medical Assistance Services, Department of Education, University of Virginia (including the Medical Center), and the Virginia Community College System.

General fund growth was also concentrated in a few core State agencies, largely reflecting policy choices and initiatives of the Governor and General Assembly.

Members of the Joint Legislative Audit and Review Commission

Chair

Senator Charles J. Colgan

Vice Chair

Delegate John M. O'Bannon III

Delegate David B. Albo
Delegate M. Kirkland Cox
Senator R. Edward Houck
Senator Janet D. Howell
Delegate Johnny S. Joannou
Delegate S. Chris Jones
Delegate Harvey B. Morgan
Senator Thomas K. Norment, Jr.
Delegate Robert D. Orrock, Sr.
Delegate Clarence E. Phillips
Delegate Lacey E. Putney
Senator Walter A. Stosch

Walter J. Kucharski, Auditor of Public Accounts

Director

Glen S. Tittermary

JLARC Staff for This Report

Hal Greer, Deputy Director
Walt Smiley, Fiscal Analysis Section Manager
Paula Lambert
Anna Haley
Martha Erwin

Cover photo: View southwest from portico of Virginia State Capitol, 2011. Photo by Jessica Harrison, Division of Legislative Automated Systems

**This document is available on the JLARC website at
<http://jlarc.virginia.gov>**



COMMONWEALTH of VIRGINIA

Glen S. Tittermary
Director

Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Building, Capitol Square
Richmond, Virginia 23219

(804) 786-1258

November 1, 2011

The Honorable Charles J. Colgan
Chair
Joint Legislative Audit and Review Commission
General Assembly Building
Richmond, Virginia 23219

Dear Senator Colgan:

Section 30-58.3 of the *Code of Virginia* requires JLARC to produce an annual report on State spending growth over the prior ten years. This report covers the period from FY 2002 to FY 2011 and is the eleventh report in the series.

The findings of this report were presented to the Commission on October 11, 2011.

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 and by the Secretary of Finance.

Sincerely,

A handwritten signature in black ink that reads "Glen S. Tittermary".

Glen S. Tittermary
Director

GST/mle

Table of Contents

	Page
Key Findings: Review of State Spending (FY 2002–FY 2011)	1
Overview of Virginia’s Budget	2
Annual Reports on State Spending	3
Virginia’s Budget Growth Has Slowed in Recent Years	4
Table 1: Virginia’s Operating Appropriations, FY 2002–FY 2011	4
Growth in Population and the Economy and Inflation Contribute to Budget Trends	6
Table 2: Key Demographic and Economic Changes in Virginia	6
Table 3: Effects of Inflation and Population Growth on Appropriations	7
Figure 1: General Fund Appropriations on a Per Capita Inflation-Adjusted Basis	7
Agency Workloads, Policy Decisions, Federal Funding, and National Programs Also Contribute to Budget Trends	8
Table 4: Federal ARRA Funds Supplanted or Restored General Funds in FY 2010 and FY 2011	8
Non-General Funds Continue to Grow Faster Than the General Fund	10
Table 5: Non-General Funds Grew Faster Than the General Fund	11
Most Budget Growth Occurs in a Few State Agencies	12
Table 6: Ten Largest Agency Appropriations	12
Table 7: Ten Agencies With the Most Growth in Total Appropriations	13
Table 8: Ten Agencies With the Most General Fund Growth	13
Why Did Some Agency Appropriations Grow Faster Than Others?	14
Table 9: Fastest Growing Agencies Based on General Fund Appropriations	14
Table 10: Six Judicial Branch Agencies Receive a General Fund Appropriation for the Criminal Fund	15
Table 11: Fastest Growing Agencies Based on Non-General Fund Appropriations	16
Table 12: General Fund Appropriation of 27 Agencies Declined	17
Budget Growth in Programs Is Focused on Core State Government Activities	18
Table 13: Largest Program Increases in Total Appropriations	18
Some Secretarial Budget Growth Is Due to Realignments	19
Table 14: Budget Growth by Secretarial Area	19
Growth Occurred in Other Areas of State Government Over the Last Decade	20
Appendixes	
A: Study Mandate	21
B: Research Methods and Activities	23
C-I (available online at http://jlarc.virginia.gov under Fiscal Analysis)	
C: The Basis of Virginia’s Budget	
D: Ten Largest Annual General Fund Increases, 2002–2011 Biennial Totals	
E: State Expenditures by Governmental Function	
F: Final Legislative Operating Appropriations by Fund	
G: Final Legislative Operating Appropriations by Secretarial Area	
H: Major Uses of Non-General Funds, FY 2011	
I: Total Appropriations, General, and Non-General Funds for the 10 Agencies With the Most Growth in Total Appropriations, FY 2002–FY 2011	

ABBREVIATIONS USED IN THIS REPORT

Abbreviation	
CNU	Christopher Newport University
CSA	Comprehensive Services for At-Risk Youth and Families
DBA	Department of Business Assistance
DBHDS	Department of Behavioral Health and Developmental Services
DBVI	Department for the Blind and Vision Impaired
DCJS	Department of Criminal Justice Services
DCR	Department of Conservation and Recreation
DEQ	Department of Environmental Quality
DGS	Department of General Services
DHCD	Department of Housing and Community Development
DJJ	Department of Juvenile Justice
DMAS	Department of Medical Assistance Services
DMME	Department of Mines, Minerals, and Energy
DOA	Department of Accounts
DOC	Department of Corrections
DOE	Department of Education
DOF	Department of Forestry
DOLI	Department of Labor and Industry
DPB	Department of Planning and Budget
DRS	Department of Rehabilitative Services
DSS	Department of Social Services
FAMIS	Family Access to Medical Insurance Security
GMU	George Mason University
IDC	Indigent Defense Commission
IEIA	Innovation and Entrepreneurship Investment Authority (<i>formerly the Innovative Technology Authority</i>)
JDRDC	Juvenile and Domestic Relations District Courts
JYF	Jamestown-Yorktown Foundation
LVA	Library of Virginia
Mag Sys	Magistrate System
MRC	Marine Resources Commission
SBE	State Board of Elections
UVA	University of Virginia
Va Tech	Virginia Tech
VCCS	Virginia Community College System
VCSP	Virginia College Savings Plan
VCU	Virginia Commonwealth University
VDEM	Virginia Department of Emergency Management
VDH	Virginia Department of Health
VDOT	Virginia Department of Transportation
VEC	Virginia Employment Commission
VEDP	Virginia Economic Development Partnership
VITA	Virginia Information Technologies Agency
VSDBH	Virginia School for the Deaf and Blind–Hampton
VSDBS	Virginia School for the Deaf and Blind–Staunton
VSP	Virginia State Police
W&M	College of William and Mary

KEY FINDINGS: Review of State Spending (FY 2002–FY 2011)

- Over the last decade, Virginia’s operating budget increased by \$15.5 billion (66%)—a 29% increase in general funds and a 105% increase in non-general funds. (p. 4)
 - A variety of economic and policy factors contributed to this growth. With a population growth of 10% from 2002 to 2010, Virginia had approximately 717,000 more residents. Virginians also saw a 46% increase in personal income over the period although inflation increased by 23%. (p. 6)
 - Overall budget growth was largely the result of growth in non-general funds in FYs 2008-2011, led in part by an infusion of federal stimulus funds in FYs 2010-2011. (pp. 8-11)
 - The ten largest State agencies (of 154 agencies) accounted for 69% of the entire State budget in FY 2011 and 74% of all budget growth between FYs 2002 and 2011. (pp. 12-13)
 - Growth in general fund appropriations is concentrated in a few large State agencies. The general fund appropriation of 51 agencies grew more slowly than inflation or even declined. (pp. 12-17)
 - Several agencies experienced notable growth in general and non-general fund appropriations over the last ten years. (pp. 14-16)
 - Growth in budget programs was also concentrated in a few large core programs: eight programs (of 203) in health care, education, and transportation accounted for nearly 60% of all budget growth. (p. 18)
-

Overview of Virginia's Budget

The budget is a complex instrument that channels money from many different sources to a variety of functions and programs. It incorporates numerous trends and changes into a single dollar figure representing all State government activities, and is perhaps the single most important statement of policies and priorities for Virginia.

In FY 2011, Virginia's budget totaled \$39.0 billion and included 154 agencies and 203 programs.

Virginia's overall fiscal health is driven by numerous factors:

- **Population:** As a fast-growing State in terms of population (16th fastest growing in 2010), each year more residents are paying taxes and requiring public services.
- **Economic factors:** Wages and personal income in Virginia outpaced the nation during the FY 2002 to FY 2011 period, and unemployment remained below the national average.
- **State spending:** Overall budget growth slowed dramatically near the end of the period but increased by nearly 5% in FY 2011, due in part to an infusion of federal stimulus funds and growth in other non-general funds. The overall budget continued to grow even though most State agency budgets were reduced during the period.

Annual Reports on State Spending

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

Prior reports reviewed spending and budget growth over different periods between fiscal year (FY) 1981 and FY 2010. This report is the 11th in the series and focuses on trends during the past ten years, from FY 2002 through FY 2011. The report focuses on the State's operating budget and therefore excludes capital spending.

As in prior editions, this report does not address the merits or adequacy of funding for governmental functions, agencies, or programs. An inherent limitation in trend analysis is that it does not address the appropriateness of the expenditure amount in either the base or end year. For example, a rate of growth that might be appropriate for a program that was inadequately funded in the first year might be excessive for a program that was adequately funded. This report identifies potential underlying long-term factors that appear to provide some explanation for budget growth. Of the numerous perspectives from which budget growth can be examined, key economic, policy, historical, and technical factors are considered.

Virginia's Budget Growth Has Slowed in Recent Years

Virginia has had long-term budget growth for many years. As noted in the first JLARC report on State spending, issued in January 2002, Virginia's total operating appropriations grew an average of 7.9% from FY 1981 to FY 2000. Even in years of national recession and decline in the State general fund, such as FY 1992, the total State budget continued to increase due to growth in non-general funds.

General funds derived from broad-based taxes like income and sales taxes are not restricted as to their use and so are available for the general purposes of government.

Non-general funds are taxes, fees, and revenues statutorily limited to specific purposes, such as college tuition or gasoline taxes.

Growth in total appropriations continued through the 2000s, but slowed to a near stop by FY 2010 only to rebound in FY 2011 (Table 1). Total appropriations grew by about 6% in FYs 2003 and 2004. The nearly 11% growth in FY 2005 stemmed not only from a healthy economy but also from State tax policy changes adopted in 2004, leading to three years of above-average budget growth. By FY 2008, total budget growth slowed to less than 3%, and in FY 2010 it grew just 0.3%. FY 2011's total budget grew by nearly 5% as a result of increases in both general and non-general funds.

The upward trend in State general fund appropriations came to a halt in FY 2007, although the total budget continued to grow slowly until FY 2011. Prior to FY 2007, there had been only two "down" years for the general fund (FYs 1992 and 2002). FY 2008 through FY 2010 saw general fund appropriations decline \$2.2 billion, or 13%, an average decline of more than 4% per year. This was the first time since at least the early 1960s that the general fund declined in two or more consecutive years. FY 2011 saw an increase in both general funds (4.5%) and non-general funds (5.1%) for an overall increase of 4.9%.

Table 1: Virginia's Operating Appropriations, FY 2002-FY 2011 (\$ in Millions)

Fiscal Year	General Fund		Non-General Fund		Total	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
2002	\$12,014	---	\$11,469	---	\$23,483	---
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
2005	13,782	11.4	15,476	10.5	29,258	10.9
2006	15,111	9.6	16,881	9.1	31,991	9.3
2007	17,033	12.7	18,062	7.0	35,095	9.7
2008	16,960	-0.4	19,043	5.4	36,004	2.6
2009	16,192	-4.5	20,865	9.6	37,057	2.9
2010	14,785	-8.7	22,380	7.3	37,165	0.3
2011	15,457	4.5	23,525	5.1	38,983	4.9
2002-2011		28.7%		105.1%		66.0%
<i>Average Annual Change</i>		3.1%		8.3%		5.8%

Note: Operating funds only; excludes central and capital appropriations.
Source: Appropriation Acts.

In the general fund's "down" years of the last decade (FY 2002 and FYs 2008-2010), growth in non-general funds continued to drive up total appropriations. Overall annual budget growth from FY 2002 to FY 2011 averaged 5.8%, with non-general fund growth increasing 8.3% on average. General fund growth, however, averaged 3.1%.

Non-general funds continued to grow for several reasons, including increases in federal funds, tuition payments at colleges and universities, and child support enforcement payments. Some of this shift was expressly to offset the decline in general funds. For example, the federal government provided an infusion of funds to states in FY 2010 to offset declines in State funding for education, health care, and other activities.

Another important change occurred during the last decade—the general fund declined as a portion of the total State budget. In FY 2002, for example, general funds totaled 51% of operating appropriations. Starting in FY 2003, however, non-general funds represented a majority of the State's budget. By FY 2011, non-general funds represented 60% of operating appropriations, compared to just 40% for general funds. The dominance of non-general funds in the budget means that the size and growth of the State budget may be less reflective of the State's economic activity and population growth and more the consequence of policy choices that affect the sources of revenue for these funds—such as State decisions about college tuition, gasoline taxes, and the unemployment trust fund—and federal decisions about funding for the State and localities.

Growth in Population and the Economy and Inflation Contribute to Budget Trends

Changes in population levels and demographics can drive public sector budgets. Virginia's population increased 10% from 2002 to 2010, the most recent year for which data are available (Table 2). Not only do localities that are gaining or losing significant numbers of people tend to have different needs and expectations for public services, two age groups in particular—older residents and the school-age population—may influence the provision of State services and funding. The number of Virginians 65 years of age and older increased 10% more than the overall population between 2002 and 2010. Over the same period, the number of Virginians ages five through 19 grew more slowly than the overall population.

Table 2: Key Demographic and Economic Changes in Virginia (2002–2011)

Indicator	2002 (except as noted)	2011 (except as noted)	% Change
Population			
Total	7,283,541 ^a	8,001,024 (2010)	10%
Ages 65 and over	815,844	976,937 (2010)	20
Ages five through 19	1,506,702	1,574,060 (2010)	4
Economy			
Inflation (Consumer Price Index)	181.8	224.3	23
Total Employment (Non-Farm, June)	3,495,400	3,643,800	4
Total State Personal Income	\$245.8 billion	\$358.1 billion (2010)	46
Median Home Sales Price (June)	\$157,116	\$235,000	50
Average Price Per Acre of Farm Land	\$2,490	\$4,500	81
Total Taxable Property	\$593.3 billion	\$1,105.3 billion (2009)	86
Average Weekly Wages	\$716	\$955 (2010)	33
State Finance^b			
State Operating Budget	\$23.5 billion	\$39.0 billion	66
State General Fund Budget	\$12.0 billion	\$15.5 billion	29
Total Number of State Employees (salaried) ^c	109,514	114,125	4
Average State Employee Salary	\$34,503	\$43,623	26
Taxable Sales	\$70.6 billion	\$85.9 billion (2009)	22

Note: Dollars not adjusted for inflation.

^a Estimated. ^b On a fiscal year basis. ^c Includes salaried faculty at institutions of higher education.

Sources: Weldon Cooper Center; U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; U.S. Department of Agriculture; various State agencies; Virginia Realtors' Association.

On a per capita basis, general fund appropriations have declined 16% since the peak in FY 2007.

Inflation also explains some of the increase in Virginia's budget. As measured by the change in the consumer price index (CPI) from FY 2002 through FY 2011, inflation increased 23%. This means that the State budget would have had to increase by that percentage just to maintain the same service levels as in FY 2002. Controlling for the effects of inflation, Virginia's total appropriations increased 35% over the period, the general fund budget increased 4%, and the non-general fund budget increased 66% (Table 3). Adjusting for inflation can help better explain underlying budget changes because the procedure can convert (in this case) FY 2002 appropriations into FY 2011 dollars. Taking into account both inflation and population growth, general fund appropriations varied by small amounts throughout most of the period, running fairly close to the ten-year per capita average of \$2,039 (Figure 1).

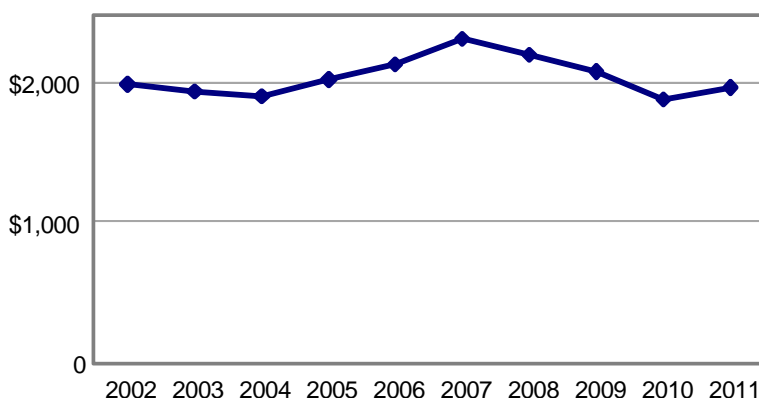
Table 3: Effects of Inflation and Population Growth on Appropriations (FY 2002–FY 2011)

	10-Year Cumulative % Change in Appropriations		
	Overall	General Fund	Non-General Fund
Final Legislative Appropriations	66%	29%	105%
Inflation Adjusted	35%	4%	66%
Per Capita Inflation Adjusted	23%	-5%	51%

Source: Appropriation Acts; Weldon Cooper Center; U.S. Bureau of Labor Statistics.

Virginia’s per capita inflation-adjusted overall budget growth of 23% from FY 2002 through FY 2011 resembled the 50-state average spending growth over a similar ten-year period. Appropriation data for the 50 states are unavailable, but data on state expenditures collected by the National Association of State Budget Officers (NASBO) from FYs 2000 through 2009 shows that Virginia’s spending growth of 29% ranked 20th among the 50 states, after adjusting for inflation and population growth. In comparison, West Virginia’s per capita inflation-adjusted spending growth was 152% during that period. (The NASBO report focused on expenditures, including capital outlay and the expenditure of bond proceeds while this report focuses on final operating appropriations, excluding capital.)

Figure 1: General Fund Appropriations on a Per Capita Inflation-Adjusted Basis (FY 2002–FY 2011)



Source: Appropriation Acts

Virginia’s economic growth outpaced the nation for most of the period under review. A growing economy typically means an increasing, wealthier population that generates increasing revenues as well as expectations of additional public services, from roads to schools and public safety. Importantly, economic growth favored some regions of the State more than others.

Several key economic indicators point to Virginia’s strong performance during this period. For example, Virginia’s share of the gross domestic product (GDP) outperformed that of the nation as a whole between 2002 and 2010, rising 46% compared to the national rate of 38%. When adjusted for inflation, Virginia’s GDP increased 18% between 2002 and 2010. This growth compares favorably to the 12% inflation-adjusted increase in the U.S. GDP.

In addition, personal income in Virginia also increased over the last decade. On an inflation-adjusted basis, personal income in Virginia rose 23% between 2002 and 2009 compared to a nationwide increase of 17%.

Virginia also experienced growth in its labor force over the last ten years. The statewide unemployment rate in July 2011 (6.1%) ranked 42nd (ninth lowest among the 50 states). Total employment in Virginia grew approximately 4% over the period under review, totaling over 3.6 million employed in July 2011. Comparatively, nationwide employment only increased by 0.8% during the ten-year period, reflecting nationwide recessions.

Agency Workloads, Policy Decisions, Federal Funding, and National Programs Also Contribute to Budget Trends

While inflation, population growth, and economic growth help explain State budget growth over the last decade, additional factors are also at work. Policy decisions that establish and change programs and services for specific populations are reflected in the budgets for those programs. Virginia's budget also fluctuated with federal, State, and in some cases, local decisions to expand or diminish programs and activities.

The broad demographic and economic changes described above influenced the workload of State agencies, although there is no consistent trend. Some agency workloads grew significantly while others declined, and the link between measurable workloads and an agency or program budget is not always clear or consistent. The main reason for this inconsistency is that agency budgets are driven by an array of factors, including not only changes in workload but also the adequacy of the budget, and policy decisions to change programs, staffing, and funding levels. The increased use of technology can also affect costs.

Federal funds grew as a portion of Virginia's budget over the period under review. At the beginning of the period, federal funds accounted for \$3.1 billion or 13% of the State budget. By FY 2011, Virginia's federal funds more than doubled to \$7.1 billion, and their share of the State budget had risen to 18%. Part of this growth occurred late in the ten-year period as a result of the federal government's response to the severe economic downturn in 2008. The 2009 American Recovery and Reinvestment Act (ARRA) provided additional federal (stimulus) funds to the states. Virginia and its localities received approximately \$6.3 billion from FY 2009 through FY 2011. Of this total, the General Assembly appropriated approximately \$1.54 billion in FY 2010 and \$1 billion in FY 2011 (Table 4).

Most federal funding requires a State funding match under federal law. The match rate varies from program to program. In some cases, simply to continue participating in a federal program requires substantial State funding. For example, Medicaid is the largest federal program in the Virginia budget, with \$4.4 billion in federal funds (62% of all federal funds in Virginia's budget) and a total budget of \$7.5 billion in FY 2011. The State match rate for Medicaid was about 50% for most of the decade under review. ARRA enhanced the federal share to 65% for FYs 2010 and 2011, lowering the State-required match to 35% of program spending.

Table 4: Federal ARRA Funds Supplanted or Restored General Funds in FY 2010 and FY 2011 (\$ in Millions)

State Agency or Program	FY 2010	FY 2011
DMAS (Medicaid)	\$746.4	\$713.6
Direct Aid to Public Education (K-12)	584.2	122.9
Flexible Spending	109.5	---
Higher Education	75.0	201.7
Justice Assistance Grant (Sheriffs)	23.3	---
Total	\$1,538.4	\$1,038.2

Note: Totals do not include all ARRA funding. For example, VDOT received \$695 million in ARRA funds for various transportation projects; this table focuses on stimulus funding that impacted the general fund. Federal stimulus funds for Virginia under ARRA totaled \$6.33 billion from 2009-2011, only some of which was required to be appropriated through the State budget process.

Sources: 2009 Summary of 2008-2010 Budget Actions and 2010 Summary of 2010-2012 Budget Actions (prepared jointly by the staff of the House Appropriations and Senate Finance Committees); www.recovery.gov.

Virginia has accommodated a variety of mandatory federal enhancements of the Medicaid program over the years. Examples of federally required spending increases include rate increases for certain Medicaid-funded services and early intervention services for certain young children. In addition, State agencies, in the course of operations, are required to comply with various federal 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 State government's costs of doing business.

Virginia enjoys a disproportionate share of federal government spending due to its proximity to Washington, D.C., and the large military presence in the State. For instance, in federal FY 2009 (the most recent year for which data are available), Virginia ranked second among the states in total federal spending per capita. In that year, the federal government spent \$155.6 billion in Virginia (up from \$118.5 billion in federal FY 2008). The largest share of federal spending in Virginia (\$82 billion or 47%) was for procurement of goods and services, including services provided by federal contractors based in Virginia.

Although Virginia receives and appropriates a substantial amount of federal funds, the Commonwealth is not a large federal grant recipient in per capita terms. Since federal FY 1995, Virginia has ranked between 47th and 50th among the states in terms of per capita receipt of federal grant awards. In FY 2009, Virginia ranked 49th.

The following nationwide programs also contribute to State budget growth:

- No Child Left Behind Act, and special education funding requirements
- Clean Water Act, and other environmental programs
- Base Realignment and Closing Commission (BRAC) requirements, which led to State spending on infrastructure to accommodate realignment
- 2002 Help America Vote Act, which required a State match for more than \$58 million in federal funds for election equipment and other improvements
- Family Access to Medical Insurance Security (FAMIS)
- Real ID Act, which required state-issued driver's licenses and identification cards to meet federal standards
- Medicare Part D prescription drug benefit
- Tobacco Master Settlement Agreement

Non-General Funds Continue to Grow Faster Than the General Fund

A key reason for consistent growth in the State budget, even in years when the general fund declined, has been the steady growth of non-general funds. The uses of these funds are governed by statute and now account for 60% of the total budget. Non-general funds grew 105% over the last ten years, outpacing the 29% growth in the general fund (Table 5).

The inclusion of non-general funds in the budget can be traced to the requirement in the *Constitution of Virginia* that all State spending can occur only as provided by appropriations made by the General Assembly. Although the general fund budget tends to receive more attention than the non-general fund portion (in part because fewer annual decisions are made about non-general funds), funds from all sources must be included in the budget and appropriated before they may be spent.

The Commonwealth draws upon more than 1,600 sources of revenue, according to DOA. The State accounting system groups funds from all these sources into the nine broad categories shown in Table 5. (See Appendix H: Major Uses of Non-General Funds, FY 2011, available at <http://jlarc.virginia.gov> under Fiscal Analysis.)

As illustrated in Table 5, growth in all categories of non-general funds, with the exception of highway maintenance and construction, exceeded the general fund's overall growth rate of 29% from FY 2002 to FY 2011. To a large extent, growth in non-general funds reflects trends in the specific activities that generate the money, such as the issuance of bonds, increased product sales (in the case of the Department of Alcoholic Beverage Control or the lottery, for example), increasing college tuition payments, increased child support payments, and funds paid by local governments and by the federal government. Growth in these sources helps drive the State budget. However, some of the non-general funds with the highest growth rates are relatively small as a percentage of the State's total budget.

Table 5: Non-General Funds Grew Faster Than the General Fund (\$ in Millions)

Non-General Fund Category	FY 2002	FY 2011	% of FY 2011	
			Budget	Growth
Dedicated Special Revenue ^a	\$250	\$811	2.1%	224%
Trust and Agency ^b	767	2,327	6.0	203
Enterprise ^c	428	1,146	2.9	168
Higher Education Operating ^d	2,704	6,658	17.1	146
Federal Trust ^e	3,120	7,056	18.1	126
Debt Service ^f	121	256	0.7	111
Special Revenue ^g	1,202	1,743	4.5	45
Highway Maintenance and Construction ^h	2,876	3,528	9.1	23
Non-General Funds (Total)	\$11,469	\$23,525	60.3%	105%
General Fund	\$12,014	\$15,457	39.7%	29%
Total (All Funds)	\$23,483	\$38,983		66%

Note: Totals may not add due to rounding.

Source: 2002 and 2011 Appropriation Acts and DOA.

^a Money from fees and payments restricted to the related activity, e.g., the State's revolving funds (such as the safe drinking water revolving fund) and game protection, solid waste management permit fee, and nursing scholarship and loan repayment funds.

^b Held by the State as custodian or trustee for individuals and certain organizations, e.g., unemployment insurance, tobacco settlement funds, and the lottery and literary funds earmarked for public education.

^c Money for self-supporting governmental activities that provide goods and services to the general public, e.g., the sale of lottery tickets, alcoholic beverage sales at Virginia's ABC stores, and the Virginia College Savings Plan.

^d Money from tuition and fees paid by students at Virginia's colleges and universities, revenues generated by campus activities, and university hospital revenues at the UVA Medical Center, for example.

^e All federal monies received except those received by VDOT, VEC, and higher education institutions.

^f Money for all debt-related activities, such as proceeds from the sale of bonds and payments of principal and interest to retire the bonds. All appropriations for principal and interest payments are made to this fund.

^g Revenues derived from restricted taxes and other special (non-general) revenue sources.

^h All revenues designated for highway operations, maintenance, construction and related activities, excluding toll facilities. Includes federal funding for highway construction.

Most Budget Growth Occurs in a Few State Agencies

The overall State budget grew 66% (unadjusted for inflation) between FY 2002 and FY 2011. A handful of large agencies dominated the budget throughout this period. With few exceptions, the largest agencies in FY 2002 in terms of total appropriations were also the largest in FY 2011 (Table 6). The four largest agencies accounted for about half of Virginia's budget in both years. VCCS and VEC were in the top ten for largest agency appropriations in FY 2011 but not in FY 2002.

Table 6: Ten Largest Agency Appropriations (\$ in Millions)

FY 2002				FY 2011			
Rank	Agency	Total	% of Budget	Rank	Agency	Total	% of Budget
1	DOE (Direct Aid)	\$4,433.4	19%	1	DMAS	\$7,532.5	19%
2	DMAS	3,272.2	14	2	DOE (Direct Aid)	6,248.4	16
3	VDOT	2,654.2	11	3	VDOT	3,366.4	9
4	DSS	1,242.5	5	4	UVA	2,277.6	6
5	UVA	1,188.0	5	5	DSS	1,918.9	5
6	DOC	828.9	4	6	VCCS	1,410.8	4
7	DBHDS	761.3	3	7	VEC	1,035.4	3
8	Va Tech	560.7	2	8	DOC	1,011.1	3
9	VCU	550.7	2	9	Va Tech	1,003.7	3
10	Compensation Board	504.4	2	10	VCU	943.5	2
Total, 10 Largest Agencies		\$15,996.4	68%	Total, 10 Largest Agencies		\$27,013.3	69%
Total Operating Appropriations		\$23,483.2	100%	Total Operating Appropriations		\$38,982.7	100%

Note: Excludes the Personal Property Tax Relief program and the Treasury Board, both of which are discussed on page 20. Excludes central and capital appropriations. Totals may not add due to rounding.

Source: 2002 and 2011 Appropriation Acts.

The vast majority of Virginia's budget growth was concentrated in a handful of agencies: 54% of all budget growth occurred in DMAS, DOE (Direct Aid), UVA, and VCCS. Agencies with the largest growth generally are also those with the largest appropriations. Four of the top five agencies with the most growth in total appropriations (Table 7) are also among the top five in Table 6, and there is considerable overlap among the remaining agencies in each table.

Ten agencies accounted for 76% of total budget growth and more than 90% of general fund growth.

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 come primarily from statewide taxes such as the income and sales taxes, and thus are of particular interest to the public and budget decision-makers. In FY 2011, Virginia appropriated \$15.5 billion in general funds, which represented 40% of the State's total budget.

Most of the new general fund appropriations went to a few large agencies (Table 8). Six agencies that each received more than \$100 million in new general funds during the period accounted for 76% of the overall general fund growth. However, 27 agencies' general fund appropriation (among those with a general fund appropriation of at least \$5 million in FY 2002) decreased from FY 2002 to FY 2011 (see Table 12).

Table 7: Ten Agencies With the Most Growth in Total Appropriations (\$ in Millions)

Agency	Total Appropriation		Total Growth		
	FY 2002	FY 2011	\$	%	% of Total
1 DMAS	\$3,272.2	\$7,532.5	\$4,260.4	130%	27%
2 DOE (Direct Aid)	4,433.4	6,248.4	1,815.0	41	12
3 UVA	1,188.0	2,277.6	1,089.7	92	7
4 VCCS	499.3	1,410.8	911.5	183	6
5 VDOT	2,654.2	3,366.4	712.2	27	5
6 DSS	1,242.5	1,918.9	676.4	54	4
7 VEC	410.5	1,035.4	624.9	152	4
8 Va Tech	560.7	1,003.7	443.0	79	3
9 GMU	321.6	747.9	426.3	133	3
10 VCU	550.7	943.5	392.8	71	3
Total for Top 10 Agencies	\$15,133.1	\$26,485.1	\$11,352.0	75%	74%
Total Operating Budget	\$23,483.2	\$38,982.7	\$15,499.5	66%	100%

Note: Excludes central and capital appropriations. Totals may not add due to rounding.

Source: 2002 and 2011 Appropriation Acts.

Table 8: Ten Agencies With the Most General Fund Growth (\$ in Millions)

Agency	General Fund Appropriation		General Fund Growth		
	FY 2002	FY 2011	\$	%	% of Total
1 DMAS	\$1,568.8	\$2,822.3	\$1,253.5	80%	36%
2 DOE (Direct Aid)	3,895.7	4,713.3	817.7	21	24
3 DOC	732.2	930.6	198.4	27	6
4 CSA	138.8	271.2	132.4	95	4
5 DSS	265.9	379.6	113.7	43	3
6 Compensation Board	500.2	606.0	105.8	21	3
7 DBHDS	434.4	534.0	99.6	23	3
8 VCCS	318.4	370.1	51.7	16	2
9 VSP	169.7	208.9	39.2	23	1
10 DCR	39.4	71.2	31.8	81	1
Total for Top 10 Agencies	\$8,063.6	\$10,907.3	\$2,843.7	35%	83%
Total Operating Budget	\$12,013.8	\$15,457.5	\$3,443.6	29%	100%

Note: Excludes central and capital appropriations. Totals may not add due to rounding.

Source: 2002 and 2011 Appropriation Acts.

Why Did Some Agency Appropriations Grow Faster Than Others?

The fastest growing State agencies, based on general fund appropriations in FY 2002 and FY 2011, had general fund growth rates over 40%, exceeding the overall general fund growth rate of 29% for that period (Table 9). Interestingly, not all of the top agencies based on the most general fund growth (listed in Table 8) also had the fastest rates of growth (Table 9). For example, DOE (Direct Aid) ranked second in Table 8 but was not among the ten fastest growing agencies shown in Table 9, having grown more slowly (21%) than inflation, which grew 23% over the period.

Table 9: Fastest Growing Agencies Based on General Fund Appropriations (\$ in Millions)

	Agency	General Fund Appropriation		General Fund Growth		
		FY 2002	FY 2011	\$	% of Total	%
1	IDC	\$18.4	\$42.6	\$24.2	1%	131%
2	CSA	138.8	271.2	132.4	4	95
3	DCR	39.4	71.2	31.8	1	81
4	DMAS	1,568.8	2,822.3	1,253.5	36	80
5	Supreme Court	17.2	30.9	13.7	<1	79
6	JDRDC	47.7	78.5	30.8	1	65
7	Magistrate System	18.3	28.2	9.9	<1	54
8	Court of Appeals	5.6	8.2	2.7	<1	48
9	VSDBS	6.3	9.1	2.8	<1	45
10	Combined District Courts	15.2	21.9	6.7	<1	44

Note: Excludes central and capital appropriations. Totals may not add due to rounding.

Source: 2002 and 2011 Appropriation Acts.

Explanation of General Fund Growth

IDC	In FY 2002, the Public Defender Commission was appropriated \$18.4 million and had 300 full-time equivalent (FTE) staff positions. Major changes occurred in 2004-05 when the agency was renamed the Indigent Defense Commission, a requirement was implemented for certification of counsel for indigent defendants, and fees paid to such counsel were increased. By FY 2011, IDC had 540 FTE staff and \$42.6 million in appropriations.
CSA	Between FYs 2002 and 2010 (the latest data available), CSA saw a 20% increase in caseload, an 83% increase in residential foster care spending, and a 128% increase in special education-private day services.
DCR	In FY 2011 \$32.8 million was added (on a one-time basis) to the Water Quality Improvement Fund to promote agricultural best practices.
DMAS	The majority of the increase is due to budget adjustments for increasing enrollment, utilization, and cost increases, as well as additional federal program requirements. For example, FAMIS enrollment increased from approximately 37,000 to more than 108,000 children over the period. The recent recession and Virginia's aging population also contributed to an increase in Medicaid-eligible recipients.
Supreme Court JDRDC Magistrate System Court of Appeals Combined District Courts	See next section and Table 10
VSDBS	Effective July 1, 2008, the VSDB at Hampton was consolidated with the VSDB in Staunton.

Judicial Agencies' Growth Was Due to Increases in Criminal Fund and Staffing

Seven judicial branch agencies had notable increases in general fund appropriations in recent years: Supreme Court, Juvenile and Domestic Relations District Courts, Magistrate System, Court of Appeals, Combined District Courts, General District Courts, and Circuit Courts. Five of these agencies (listed in Table 9) each received an increase in their general fund appropriation in FY 2009 for the Criminal Fund, which is divided among six judicial branch agencies (Table 10) and is used to pay for court-appointed counsel and certain court-ordered services for indigent defendants in criminal cases. In addition, fees paid to attorneys have been raised in recent years. The Criminal Fund is a pass-through account administered by the Office of the Executive Secretary pursuant to the *Code of Virginia* and may only be used to pay for expenses incurred by third parties. Payment of such expenses is authorized by the *Code* (§53.1-40 and §19.2-68).

The increase in the general fund budget for the Magistrate System and Court of Appeals, however, is not related to the increase in Criminal Fund appropriations. In FYs 2009 and 2010, improvements in staffing, oversight, and technology were funded in the Magistrate System, resulting in 46 additional full-time positions and \$6.7 million more in general funds. The number of full-time general-funded positions in the Court of Appeals also increased by 14 over the last decade, accounting for much of the \$2.7 million increase in its general fund budget. Most of this increase—11 additional full-time positions in the Court of Appeals and \$1.2 million more in general funds—took place from FY 2006 to FY 2007.

Table 10: Six Judicial Branch Agencies Receive a General Fund Appropriation for the Criminal Fund

Agency	General Fund Appropriation (\$ in Millions)				
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Circuit Courts	\$51.20	\$49.80	\$59.21	\$59.13	\$59.13
JDRDC	20.37	20.37	23.11	23.11	26.36
General District Courts	12.01	12.01	13.97	13.97	12.58
Combined District Cts	5.55	5.55	6.47	6.47	6.47
Supreme Court	0.01	23.21	4.21	4.21	4.21
Court of Appeals	<0.01	<0.01	<0.01	<0.01	<0.01
Total	\$89.16	\$110.96	\$106.97	\$106.89	\$108.75

Source: Appropriation Acts.

Several Agencies Experienced Notable Growth in Non-General Funds

Non-general funds grew by 105% from FY 2002 to FY 2011 and comprised 60% of the State budget in FY 2011. Table 11 lists the ten agencies whose non-general fund appropriations grew the most over the period and identifies some reasons for that growth. Four of these ten agencies are in the higher education system and accounted for about \$1.6 billion or 13% of the \$12.3 billion increase in non-general funds across all State agencies over the last decade.

Table 11: Fastest Growing Agencies Based on Non-General Fund Appropriations (\$ in Millions)

Agency	Non-GF Appropriation		Non-GF Growth		
	FY 2002	FY 2011	\$	% of Total	%
1 VCSP	\$3.6	\$249.3	\$245.7	2%	6,816%
2 VITA	5.1	47.4	42.3	<1	831
3 VDEM	5.8	39.2	33.3	<1	571
4 VCCS	180.9	1,040.7	859.8	7	475
5 DCR	16.5	85.2	68.7	1	416
6 DGS	8.7	40.6	31.9	<1	369
7 Compensation Board	4.2	18.8	14.5	<1	346
8 CNU	24.8	87.2	62.4	1	251
9 GMU	197.7	621.0	423.2	4	214
10 DOE (Direct Aid)	537.7	1,535.0	997.3	8	185
Total for 10 Fastest Growing Agencies	\$985.0	\$3,764.1	\$2,779.1	23%	282%
Total Non-GF Operating Budget	\$11,469.4	\$23,525.3	\$12,055.9	100%	105%

Note: Excludes central and capital appropriations. Totals may not add due to rounding

Source: 2002 and 2011 Appropriation Acts.

Explanation of Non-General Fund Growth

VCSP	Increased appropriations reflected increased program participation and offerings in this 100% non-general funded agency. The dollar amount of tuition payments was first shown in the FY 2007 appropriation as \$80 million. Previously it had been shown as "sum sufficient" with no dollar amount indicated. By FY 2011, tuition payments totaled \$231 million.
VITA	Created at the beginning of the ten-year period when the planning, oversight, procurement, and service provision of much executive branch IT was centralized under VITA.
VDEM	Non-general funds more than tripled over the last ten years. In FY 2002, 36% of VDEM's budget was comprised of general funds. In FY 2011, this decreased to 10% and 81% of the total budget was federal funds (up from 36% in FY 2002).
VCCS, CNU, and GMU	Most of the growth was due to a notable increase in tuition revenues and enrollment over the last ten years. VCCS enrollment increased by 30% and its tuition revenue more than tripled from FY 2002 to FY 2011. CNU enrollment actually decreased by 9%; however, its tuition revenue grew by 193%. GMU enrollment increased by 22% and its tuition revenue more than doubled. Appropriations across all four-year public colleges and universities (including VCCS) grew from \$2.7 billion in FY 2002 to \$6.8 billion in FY 2011 (149%). Enrollment across all higher education institutions increased by 26% and tuition revenues grew 110%.
DCR	The agency's total budget grew 180%, most of which was in non-general funds. Most of the growth was in dedicated special revenue. In FY 2002, DCR's budget had no dedicated special revenue; by FY 2011 it contained \$47.1 million of such funding, from specific fees (such as State park fees), licenses, and permits that support specific activities. The period also saw an additional \$15.3 million in special revenue (also generated through taxes and fees) and \$6 million in additional federal funds.
DGS	Two types of non-general funds accounted for the majority of this growth: (1) enterprise funds grew from \$3.1 million in FY 2002 to \$25.3 million in FY 2011. These funds were obtained from the merger of all lab and procurement services into DGS; (2) federal funds in FY 2011 (\$9.1 million) were more than 10 times what was received in FY 2002 (about \$902,000).
Compensation Board	98% of funding is general funds with the remaining 2% non-general Trust and Agency funds (represented as the Technology Trust Fund) from recordation fees charged by Circuit Court clerks. Funds are used to obtain and update office automation and IT equipment to provide secure remote access to land records and improve public access to court records.
DOE (Direct Aid)	Total funding for this item grew 40%. The portion of the budget composed of non-general funds increased from 10% in FY 2002 to 25% by FY 2011, with Trust and Agency Fund appropriations growing substantially over the period. These are lottery funds used for financial assistance for public education (Standards of Quality, or SOQ).

General Funds in Many State Agencies Declined or Grew Slower Than Inflation

While some agencies saw their general fund appropriations grow at above-average rates, 27 agencies had general fund appropriations that declined over the ten-year period (Table 12) and the appropriations of another 24 agencies grew slower than inflation (23%). However, several agencies listed in Table 12 had overall budget growth in excess of inflation due to other sources of revenue that grew more rapidly. In other words, they had non-general fund revenue that increased more than their general fund appropriation.

Table 12: General Fund Appropriation of 27 Agencies Declined (\$ in Millions)

Agency	FY 2002	FY 2011	\$ Change	% Change
VSDBH	\$6.5	\$0	(\$6.5)	-100%
IEIA	13.4	4.5	(8.9)	-67
DOA	82.0	46.5	(35.5)	-43
LVA	38.1	26.8	(11.3)	-30
DBA	19.3	14.8	(4.5)	-23
VMI	15.7	12.2	(3.5)	-22
DGS	23.6	18.6	(5.1)	-21
DRS	33.4	27.3	(6.1)	-18
DBVI	7.3	6.0	(1.3)	-18
DMME	14.3	11.8	(2.5)	-17
Va Tech	196.6	166.2	(30.4)	-15
UVA	177.1	149.9	(27.2)	-15
DEQ	43.1	36.8	(6.3)	-15
VEDP	21.6	18.4	(3.2)	-15
DHCD	44.3	38.6	(5.7)	-13
SBE	10.9	9.5	(1.4)	-13
W&M	69.8	61.1	(8.7)	-12
DOF	15.5	13.7	(1.8)	-12
DJJ	212.5	191.4	(21.1)	-10
DCJS	237.3	215.8	(21.5)	-9
Tourism Authority	19.8	18.1	(1.7)	-9
JYF	6.9	6.3	(0.6)	-8
MRC	9.7	9.4	(0.3)	-4
DOE (Central Office)	51.3	49.9	(1.4)	-3
DOLI	7.6	7.4	(0.2)	-3
VCU	186.6	183.0	(3.6)	-2
VDOT	45.0	44.7	(0.3)	-1

Note: Table based on agencies with general fund appropriations of at least \$5 million in FY 2002.

Excludes central and capital appropriations. Totals may not add due to rounding.

Source: 2002 and 2011 Appropriation Acts.

Explanation of General Fund Decline (30% or greater)

VSDBH	VSDB at Hampton was closed following consolidation with VSDB in Staunton (July 1, 2008).
IEIA	40% decrease in appropriation from FY 2003 to FY 2004 reflected General Assembly's stated intent for IEIA to rely more heavily on non-general fund revenues.
DOA	Appropriation decreased as a result of two programs no longer coded under DOA in FY 2011: (1) In FY 2002, the Revenue Stabilization Fund (Rainy Day Fund) had \$187 million in deposits; in FY 2011, no deposits were made into the fund. (2) In FY 2002, \$72 million in general funds was appropriated to DOA to provide financial assistance to localities but this appropriation was not included in DOA's FY 2011 general fund budget.
LVA	30% decrease in appropriation from FY 2002 to FY 2011 primarily due to reduction in the number of full-time staff positions (from FY 2002 to FY 2003, 21 positions were eliminated, resulting in a \$9 million reduction in LVA's general fund budget). However, its special revenue (non-general funds) grew 75% from \$2.4 million in FY 2002 to \$5.2 million in FY 2011, and federal funding increased by 46% over that period.

Budget Growth in Programs Is Focused on Core State Government Activities

All State appropriations are classified according to Virginia's program budget structure, which includes seven broad government functions plus capital expenditures. The program classification is designed to assist in the planning and analysis of the State budget as well as in monitoring 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, others may be distributed across multiple agencies. For example, the program called "education and general programs" may be found in the budgets of all colleges and universities. In FY 2011, Virginia's \$39 billion budget included 203 programs.

Like growth in State agencies, most of the growth in budget programs over the ten-year period from FY 2002 to FY 2011 remained concentrated among programs relating to the core functions of State government, health care and education (Table 13). Of all budget growth during the ten-year period, 75% occurred in just ten of the programs included in the FY 2002 and FY 2011 budgets. Seven of these ten fell into the two core functions and account for nearly 70% of Virginia's budget growth over the last ten years. As shown in Table 13, five education programs accounted for \$5.7 billion or 37% of all budget growth over the period.

Table 13: Largest Program Increases in Total Appropriations (\$ in Millions)

Program	Total Appropriation		Growth		% of Total
	FY 2002	FY 2011	\$	%	
1 Medical Program Services (Medicaid)	\$3,117.5	\$7,160.1	\$4,042.7	130%	26%
2 Financial Assistance for Public Ed (SOQ)	2,539.6	4,817.6	2,278.0	90	15
3 Higher Ed: Education & General Programs	2,324.3	3,950.7	1,626.4	70	10
4 State Health Services	763.0	1,677.1	914.1	120	6
5 Higher Ed: Auxiliary Services	590.4	1,285.6	695.2	118	4
6 Higher Ed: Financial Assistance for E&G Programs	556.8	1,163.2	606.4	109	4
7 Higher Ed: Student Financial Assistance	116.7	642.2	525.5	450	3
8 Highway System Maintenance	847.9	1,345.3	497.3	59	3
9 Bond & Loan Retirement & Redemption	249.5	557.4	308.0	123	2
10 Child Support Enforcement Services	486.7	759.1	272.4	56	2
Total for Top 10 Programs	\$11,592.4	\$23,358.4	\$11,766.0	101%	75%
Total Operating Budget	\$23,483.2	\$38,982.7	\$15,499.5	66%	100%

Note: State Health Services includes activities at VDH, UVA Medical Center, and at facilities operated by DBHDS and DOC. Excludes central and capital appropriations. Totals may not add due to rounding.
Source: 2002 and 2011 Appropriation Acts.

Some Secretarial Budget Growth Is Due to Realignments

The secretarial system in Virginia was established by the General Assembly in 1972. By FY 2010, it consisted of 12 secretaries broadly reflecting the major functions of the executive branch. In FY 2011, a new Secretary of Veteran Affairs and Homeland Security was authorized. As a result, several agencies currently under other secretarial areas will be re-aligned beneath it beginning in FY 2012.

Over time, secretarial budgets have varied as agencies and programs move between secretariats. Some of the apparent growth in secretarial budgets is explained by these agency realignments. For example, the Secretary of Agriculture and Forestry was established by legislation adopted in 2004. In FY 2007, two agencies (Forestry, and Agriculture and Consumer Services) were moved from the Secretary of Commerce and Trade to the Secretary of Agriculture and Forestry. This resulted in the reduction of \$87 million in FY 2007 from the Commerce and Trade secretariat and the addition of a like amount to the Agriculture and Forestry secretariat.

Table 14 shows the growth in the budgets by secretarial area. When examining Virginia's budget growth by secretarial area, health and education continue to dominate overall growth. The Finance secretariat grew 171% over the ten-year period primarily because the \$950 million personal property tax ("car tax") relief program was coded under the Department of Accounts in FY 2011 instead of under central appropriations, as in FY 2002. Additionally, debt service grew from \$267 million in FY 2002 to \$571 million in FY 2011, which is appropriated to the Treasury Board. Independent agency appropriations grew 175%, which is mainly a result of growth in the Virginia College Savings Plan from \$4 million in FY 2002 to \$249 million in FY 2011 (Table 11, page 16).

Table 14: Budget Growth by Secretarial Area (\$ in Millions)

Rank	Secretarial Area	Total Appropriation		Growth		% of Total
		FY 2002	FY 2011	\$	%	
1	Education	\$8,966.8	\$14,983.3	\$6,016.5	67%	39%
2	Health & Human Resources	6,078.9	11,594.7	5,515.8	91	36
3	Finance	658.0	1,785.5	1,127.5	171	7
4	Transportation	3,034.3	4,055.2	1,020.9	34	7
5	Commerce & Trade	640.6	1,284.1	643.5	100	4
6	Public Safety	1,911.2	2,511.1	599.9	31	4
7	Administration	575.5	980.3	404.8	70	3
8	Independent Agencies	186.8	513.2	326.3	175	2
9	Natural Resources	243.2	400.4	157.2	65	1
10	Judicial Agencies	292.9	441.9	149.0	51	1
11	Technology	21.7	52.2	30.1	141	<1
12	Agriculture & Forestry	72.7	84.1	11.4	16	<1
Total Operating Budget		\$23,483.2	\$ 38,982.7	\$15,499.5	66%	

Note: Based on agency alignments shown in respective Appropriation Acts. Excludes legislative agencies, executive offices, and central and capital appropriations. Appropriations not adjusted for inflation. Totals may not add due to rounding.

Source: 2002 and 2011 Appropriation Acts.

Growth Occurred in Other Areas of State Government Over the Last Decade

Virginia's budget growth can be analyzed from several perspectives. This report has examined growth by agency, fund, program, and secretarial area. Budget growth has also resulted from policy decisions as well as from more technical concerns. Examples of policy-driven budget growth include the personal property tax relief program and debt service (funded through the Treasury Board). Budget growth in the administration of the employee health insurance program (funded through the Department of Human Resource Management) is in part policy-driven and in part technical in nature.

The personal property tax relief program (the "car tax") began in FY 1999 as a policy initiative with a general fund appropriation of \$220 million. It increased to \$809.4 million in FY 2002 and reached a capped total of \$950 million in general funds in FY 2007 where it has remained, for a growth rate of 17% over the ten-year period from FY 2002 to FY 2011.

The Treasury Board is the primary State entity for issuing debt and making payments on bonds as authorized by the General Assembly. The board saw an increase of \$304 million in total appropriations (\$282.5 million of which was general funds) from FY 2002 to FY 2011. According to the 2010 report of the Debt Capacity Advisory Committee, outstanding tax-supported debt of the Commonwealth increased by 135% from 2001 to 2010, with the largest increases occurring between 2007 and 2010. General obligation debt, which had a 2010 balance outstanding of \$1.68 billion, increased 74% over the ten-year period. This is the result of a \$1 billion general obligation bond referendum approved by the voters in 2002. Bonds from the 2002 authorization were issued incrementally as needed, with the final issue occurring during FY 2010. Appropriations to the Treasury Board have fluctuated over time as a result of bond payment schedules. Details of prior bond issues are listed in the Comprehensive Annual Financial Reports (CAFR) issued by DOA.

Another area of growth in the budget is the administration of employee health insurance, although it is not possible to determine the exact extent of growth from the Appropriation Act. For many years, the State has self-insured for employee health insurance, but funding for this activity has been shown in the Appropriation Act in different ways over time. For example, in FY 2002 this activity was shown as including a "sum sufficient" appropriation (and therefore a dollar amount was not specified) in the central appropriations portion of the State budget. In part to increase the visibility of employee benefits costs, beginning in FY 2007, \$165 million was appropriated for this activity and it was coded under the Department of Human Resource Management. By FY 2011, this activity's appropriation was \$225.6 million in non-general funds. Because the total amount for this activity was not shown in FY 2002's budget, the precise amount of growth over the longer period (FY 2002-FY 2011) cannot readily be determined.

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: Research Methods and Activities

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

Data Collection

JLARC staff receive annual updates of budget and spending data from DPB and DOA and maintain a database with appropriation data at the agency, program, and fund level from FY 1981. Data on agency workload and populations served were also collected from various State agencies. Finally, economic and demographic data were obtained from 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. 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 2000s, 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 the fiscal and demographic data sets are included in appendixes to this report. 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 most of the tables in the appendixes, as well as appropriations for the largest State agencies, and general fund and non-general fund appropriations from FY 1981. This information is available on JLARC's website at <http://jlarc.virginia.gov> under Fiscal Analysis.

Document Review

JLARC staff utilized a variety of documents for this review. These included Appropriation Acts from FY 2002 to the present, Governor's executive budget documents over the same period, and summaries of General Assembly budget actions prepared jointly by staff of the House Appropriations and Senate Finance committees from 2002 to the present. Agency-specific and program-specific studies and documents were also 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 such as agency annual reports and statistical publications.

JLARC Staff

Lauren W. Axselle
Janice G. Baab
Jamie S. Bitz
Justin C. Brown
Ashley S. Colvin
Andrew B. Dickinson
Martha L. Erwin
Kathryn A. Francis
Harold E. Greer III
Mark R. Gribbin
Anna B. Haley
Nia N. Harrison
Joan M. Irby
Betsy M. Jackson
Paula C. Lambert
Bradley B. Marsh
Joseph M. McMahon
Ellen J. Miller
Nathalie Molliet-Ribet
Gregory J. Rest
David A. Reynolds
Robert B. Rotz
Kimberly A. Sarte
Walter L. Smiley
Tracey R. Smith
Glen S. Tittermary
Massey S. J. Whorley
Christine D. Wolfe

Recent JLARC Reports

-
- 401. Placing More Treasury-managed Funds in Virginia Banks*
 - 402. Reducing Veteran Homelessness in Virginia*
 - 403. Review of State Spending: 2010 Update*
 - 404. Interim Report: Fraud and Error in Virginia's Medicaid Program*
 - 405. Review of Virginia's Transportation Planning and Programming*
 - 406. VRS Biennial Status and Semi-Annual Investment Report No. 35*
 - 407. Special Report: State Spending on Standards of Quality (SOQ) Costs, FY 2010*
 - 408. Review of Virginia's Corporate Income Tax System*
 - 409. Use of Cooperative Procurement by Virginia's School Divisions*
 - 410. Virginia Compared to the Other States: 2011 Edition*
 - 411. Compliance Review of the VCU Management Agreement*
 - 412. Review of the Tobacco Indemnification and Community Revitalization Commission*
 - 413. State Contracting and the Federal Immigration Reform and Control Act*
 - 414. VRS Semi-Annual Investment Report No. 36*
 - 415. Review of Coordination Needs Within Virginia's Education System*
 - 416. 2011 Report to the General Assembly*

These reports are available on the JLARC website at <http://jlarc.virginia.gov>



Joint Legislative Audit and Review Commission

Suite 1100 • General Assembly Building • Capitol Square • Richmond, Virginia 23219
804-786-1258 • Fax 804-371-0101 • <http://jlarc.virginia.gov>