

Summary of the 2017 Session Introduced Budget

Governor McAuliffe introduced a revised 2016-18 biennium budget proposal on December 16 to address the nearly \$1.5 billion biennium budget shortfall estimated in August. Given the size of the shortfall, cuts to local government were relatively minor beyond the previously announced elimination of the revenue-contingent teacher and state-supported local 2 percent salary increases. The major levers used to address the shortfall include:

- ✓ \$567.2 million in Rainy Day funds;
- ✓ \$347.2 million in eliminated contingent pay increases;
- ✓ \$377.5 million in increased revenues by raising the FY 2017 revenue estimates from 1.7 percent to 3.0 percent;
- ✓ \$74.4 million in additional transfers (such as ABC profits and Attorney General settlement funds).

The increased revenue estimate is partly the result of \$138 million in proposed policy changes, including a new tax amnesty program, reinstating the accelerated sales tax requirement on larger dealers, requiring certain internet sellers with a warehouse nexus to collect sales taxes, and capping historic rehabilitation and land preservation tax credits.

Other major budget balancing items included:

- ✓ \$150 million in unspent agency appropriations;
- ✓ \$128 million from converting capital balances to cash;
- ✓ \$146 million in additional Lottery (\$52.4 m), Literary (\$50 m), and Virginia Health Care (\$44.5 m) funds to offset general funds;
- ✓ Selected operating appropriation reductions – such as a five percent \$76 million reduction to higher education appropriations in FY 2018, a \$53 million reduction in various economic development incentive programs, and a \$21 million savings from delaying opening the Culpeper women’s prison.

The introduced budget did reduce some local program funding based on existing state policies, primarily net reductions in distributions for K-12 public education from lower than expected sales tax collections (after the partial basic aid offset - \$40.1 mil.) and lower student population counts (\$35.3m). There were other smaller K-12 reductions including K-3 class size funding cuts (\$9.7 m), Special Education Regional Tuition reduced by \$6.0 mil., and eliminating Teacher Improvement funds (\$2.0 m). In addition, there is a proposed \$15 million reduction to the new Go Virginia local economic development initiative, a \$1.5 million reduction to the Brownfields Rehabilitation Program, and a \$1.8 million reduction to the Virginia Enterprise Zone Program.

The Governor also funded spending increases, including:

- \$255 million for unforeseen Medicaid cost increases.
- \$111.5 million for a FY 2018 1.5 percent bonus plan for state employees and K-12 SOQ-covered positions.
- \$86 million for the sum sufficient Children Services Act. Local governments match approximately one-third of all CSA funding increases.
- \$31.7 million in new mental health funding.
- Early reading intervention increased by \$3.8 mil., foster care increased by \$3.0 mil., and school breakfast increased by \$2.3 mil.

A \$55.5 mil. portion of the FY 2018 1.5 percent bonus plan is based on the state share of SOQ recognized employees. Localities would have to raise significant additional local resources to provide a full 1.5 percent bonus for all school employees. Other salary increases are also proposed for sheriff's offices and local and regional jails, district court clerks and state police.

The new mental health funding of \$31.7 million provides for additional "same-day-access" intake and evaluation staff at 25 CSBs; for state mental health hospitals discharge planning, private bed purchase, and other community supports to aid in discharging and diverting individuals into community settings; for mental health screening and assessment in local and regional jails; for increased access to opioid addiction treatment; and for a high-level design for an improved community-based mental health delivery system.

Introduced K-12 Funding Change from Adopted 2016-18 Budget

	2016-18 K-12 Funding			Biennium ADM Chg
	2016 Session	2017 Intro	Change	
Charlottesville	\$38,950,913	40,026,233	\$1,075,320	244
Danville	\$85,840,431	83,189,790	(\$2,650,641)	(466)
Hampton	\$257,537,560	251,475,311	(\$6,062,249)	(668)
Hopewell	\$59,621,218	58,149,127	(\$1,472,091)	(154)
Lynchburg	\$106,457,684	105,149,996	(\$1,307,688)	(72)
Martinsville	\$30,442,016	29,166,356	(\$1,275,660)	(113)
Newport News	\$377,025,897	367,852,060	(\$9,173,837)	(1,095)
Norfolk	\$400,811,434	389,867,576	(\$10,943,858)	(1,312)
Portsmouth	\$192,783,491	189,198,463	(\$3,585,028)	(374)
Richmond	\$285,725,113	292,228,919	\$6,503,806	2,042
Staunton	\$35,834,085	36,206,478	\$372,393	123
Winchester	<u>\$50,204,582</u>	<u>48,962,704</u>	<u>(\$1,241,878)</u>	<u>(188)</u>
VFC	\$1,921,234,424	\$1,891,473,013	(\$29,761,411)	(2,033)
Statewide	\$13,530,709,086	\$13,363,276,792	(\$167,432,294)	(6,301)
VFC % State	14.2%	14.2%	17.8%	32.3%