

**Report of the  
Joint Legislative Audit and Review Commission  
To the Governor and  
The General Assembly of Virginia**

**COMMISSION DRAFT**

**Review of State Spending:  
2007 Update**

**November 13, 2007**

## In Brief

### Review of State Spending: 2007 Update

Virginia's operating budget doubled between fiscal years (FYs) 1998 and 2007, a result of increasing prosperity, population growth, and policy decisions. Adjusting for the effects of inflation and population growth, the budget increased by 38 percent, an average annual increase of 3.7 percent.

The decade under review includes the economic boom years of the late 1990s and the downturn in FY 2002, when general fund appropriations declined 2.2 percent. Significant growth returned by FY 2005.

Much of the ten-year, \$17.5 billion growth was concentrated in core functions of State government: education, health care, transportation, and social services. For example, 53 percent of all budget growth occurred in just four agencies: the Departments of Education, Medical Assistance Services, Transportation, and the University of Virginia (including the Medical Center).

General fund growth was also concentrated in a few agencies, largely reflecting policy choices and initiatives of the Governor and General Assembly. The 13 agencies each receiving more than \$100 million in new general funds during the period accounted for 86 percent of all general fund growth.

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## **Commission Draft**

This document is a Commission draft of the JLARC report ***Review of State Spending: 2007 Update***. The draft has been assembled for discussion and factual review and is subject to additional verification and editorial review. Do not quote, publish, or release any material contained in this document until after it has been received by the Commission and is available on the JLARC website.

**Joint Legislative Audit and Review Commission**

**November 13, 2007**



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# JLARC Report Summary:

## Review of State Spending: 2007 Update

### Key Findings

- Virginia's operating budget increased 99 percent over the past decade. (Chapter 1)
- Adjusting for the effects of inflation and population growth, the budget increased by 38 percent, an average annual increase of 3.7 percent. (Chapter 1)
- Budget growth is concentrated in a few State agencies and programs. Two-thirds of all budget growth over the past ten years occurred in just eight of the 156 agencies. Growth in just 12 of the 203 budget programs accounted for 65 percent of all budget growth during the period. (Chapter 2)
- General fund budget growth was also concentrated in just a few agencies, largely reflecting policy choices and initiatives of the Governor and General Assembly during the period. (Chapter 2)

The Virginia budget is a complex instrument that channels money from many different sources to a wide 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 fiscal year (FY) 2007, Virginia's budget totaled \$35.1 billion and included 156 agencies and 203 programs.

This report is the seventh in a series on State spending. 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 and to identify the largest and fastest growing functions and programs in the State budget. The first six reports reviewed spending and budget growth over varying periods between FY 1981 and FY 2006. This report focuses on trends during the last five biennia, the period from FY 1998 through FY 2007.

### **VIRGINIA'S BUDGET DOUBLED BETWEEN 1998 AND 2007**

Virginia's annual operating budget increased 99 percent between FY 1998 and FY 2007, growing from \$17.6 billion to \$35.1 billion (table, next page). This robust growth reflects the growing Virginia

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## State Budget Growth

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Fiscal Year	Appropriation (\$ in Millions)	Percent Change
1998	\$17,621	--
1999	19,962	13.3%
2000	21,369	7.0
2001	23,323	9.1
2002	23,483	0.7
2003	24,983	6.4
2004	26,379	5.6
2005	29,258	10.9
2006	31,991	9.3
2007	35,095	9.7
Growth, 1998-2007	\$17,474	99.2%

Note: Operating funds only; excludes capital.

Source: Appropriation Acts.

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population and economy, the many revenue and spending decisions made during the period, and the increasing complexity of State government.

Average annual budget growth over the period was 6.5 percent, although year-to-year growth (shown in the table above) varied from as low as 0.7 percent to as much as 13.3 percent. Adjusting for inflation (which ran 28 percent over the period) and population growth (there were an estimated 853,000 more people paying taxes and using State services in 2007 than in 1998), Virginia's total appropriations increased by 38 percent over the ten-year period, an average annual increase of 3.7 percent.

Many factors influenced the State's finances during the decade covered by this report. Virginia became more prosperous as both per capita personal income and gross State product increased. The State's unemployment rate ranked fourth lowest among the states in 2007, with job growth especially strong in the services sector.

Virginia's budget also fluctuated with federal, State, and in some cases local decisions to expand, change, or diminish programs and activities. There are numerous examples of how policy choices affect the budget. One clear example is the personal property tax relief program that began during this period, receiving an initial appropriation of \$220 million in FY 1999 and growing to a \$950 million annual appropriation by FY 2007.

Another reason for budget growth stems from the inclusion of earmarked, non-general funds in the State budget, a policy derived from a requirement in the State Constitution. These non-general funds accounted for 52 percent of the FY 2007 State budget—\$18.1

billion. How these funds are used is governed mainly by statute. For example, gasoline taxes are dedicated to transportation, college tuition payments are dedicated to covering the cost of higher education, and child support payments pass through the State budget to support specific families.

Some of the non-general funds grew faster than the general fund. The higher education operating fund, for example, grew 119 percent, from \$2.2 billion to nearly \$4.9 billion, compared to 95 percent growth in the general fund. The general fund is comprised of unrestricted revenues from broad statewide sources such as the income and sales taxes, and is of particular interest to budget decision-makers and the public.

### **BUDGET GROWTH IS CONCENTRATED IN CORE AGENCIES**

Much of the ten-year, \$17.5 billion growth in the State budget was concentrated in core functions of State government: education, health care, transportation, and social services. More than half (53 percent) of all budget growth occurred in four agencies: the Departments of Education-Direct Aid to Education, Medical Assistance Services (DMAS), Transportation (VDOT), and the University of Virginia (including the Medical Center). Adding four more agencies—the personal property tax relief program, the Department of Social Services, the Community College System, and Virginia Tech—accounts for two-thirds of the ten-year growth in Virginia’s budget.

A few large agencies received most of the new general fund dollars between FY 1998 and FY 2007. The 13 agencies each receiving more than \$100 million in new general funds during the period accounted for 86 percent of all general fund growth. The Department of Education-Direct Aid to Education, DMAS, the personal property tax relief program, and VDOT each received more than \$500 million in new general funds during the period.

Only 12 agencies had general fund growth rates that exceeded the overall general fund growth rate of 95 percent during the period (table, next page). Not all high-dollar growth agencies are also high growth-rate agencies; the Department of Education-Direct Aid to Education, for example, the single largest item in the State budget with the most growth in total appropriations, had general fund growth of 85 percent over the period, below the statewide average. In fact, several relatively small agencies display above-average rates of general fund growth.

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**Agencies With Growth Rates Exceeding That of the General Fund**  
**FY 1998 to FY 2007 (\$ in Millions)**


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<b>Rank</b>	<b>Agency</b>	<b>FY 1998 General Fund Appropriation</b>	<b>FY 2007 General Fund Appropriation</b>	<b>Percentage Increase</b>
1	Personal Property Tax Relief Program	\$0	\$950.0	N/A
2	Virginia Department of Transportation	45.0	642.7	1,328%
3	Department of Environmental Quality	42.8	256.7	500
4	Indigent Defense Commission <sup>a</sup>	14.4	36.2	152
5	Treasury Board	151.0	347.4	130
6	Department of Criminal Justice Services	108.8	239.9	120
7	Comprehensive Services for At-Risk Youth and Families	100.6	216.4	115
8	Department of Conservation and Recreation	26.2	55.6	113
9	Supreme Court	11.3	23.9	112
10	Department of Medical Assistance Services	1,164.3	2,408.5	107
11	Longwood University	14.3	28.8	101
12	Department of Military Affairs	5.1	10.2	98

Note: Table based on agencies with General Fund appropriations of at least \$5 million in FY 1998. General fund appropriations in the State budget increased 95 percent between FY 1998 and FY 2007.

<sup>a</sup>Previously the Public Defender Commission.

Source: 1998 and 2007 Appropriation Acts.

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Just as some agencies saw their general fund appropriations grow at above-average rates, others saw their general funds grow more slowly. In fact, 12 agencies had general fund growth rates below the 28 percent rate of inflation during the period. Several of these agencies had revenue from non-general fund sources that offset slow general fund growth. Others had workload changes or anomalous circumstances that help account for their slow budget growth, or even budget reductions.

Like growth in State agencies, growth in budget programs was focused in a few large programs relating to the core activities of State government: health care, education, and transportation programs experienced the most growth over the ten-year period from FY 1998 to FY 2007. Seventy-one percent of all budget growth during the period occurred in just 20 of the 134 programs listed in both the FY 1998 and FY 2007 budgets.

Chapter  
**1****Overview of Virginia's  
Budget Growth****In Summary**

Virginia's operating budget increased 99 percent over the ten years ending in FY 2007. A variety of economic and policy reasons contributed to this growth. A growing State economy, along with an estimated 12 percent growth in the population, generated more revenue. Virginians saw a 55 percent increase in personal income over the period, for example, although they also contended with a 28 percent inflation rate. The State undertook numerous spending initiatives during the period. For example, three major initiatives (the revenue stabilization fund and two which began during the review period—the personal property tax relief program and the use of general funds for transportation) had FY 2007 general fund appropriations totaling \$1.7 billion—ten percent of the total general fund budget. Spending also increased due to changes in State agency workloads, federal requirements, and policy choices to improve government services. Also at work are other factors, such as the decision to include all non-general funds in the State budget, and a multiplier effect resulting from interrelated spending decisions.

The Virginia 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 fiscal year (FY) 2007, Virginia's budget totaled \$35.1 billion and included 156 agencies and 203 programs.

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 State spending growth over the prior five biennia. The statute requires JLARC to identify the largest and fastest growing functions and programs in the State budget and analyze long-term trends and causes of spending in these programs. Six prior JLARC reports reviewed spending and budget growth over different periods between FY 1981 and FY 2006. This report is the seventh in the series and focuses on trends during the past ten years, from FY 1998 to FY 2007.

As in the prior reports, the merits or adequacy of funding for governmental functions, agencies, or programs is not addressed, but long-term trends and factors that appear to underlie the trends are identified. Of the numerous perspectives from which budget growth can be examined, this report considers key economic, policy, historical, and technical factors. It excludes capital spending, looking only at the State's operating budget.

Appendices provide additional information, such as a brief review of the methods used in compiling this report (Appendix B) and an explanation of budget terminology (Appendix C).

**VIRGINIA’S BUDGET INCREASED 99 PERCENT BETWEEN FISCAL YEARS 1998 AND 2007**

Virginia’s annual budget increased 99 percent between FY 1998 and FY 2007, growing from \$17.6 billion to \$35.1 billion. The average annual percentage growth in the budget during this period was 6.5 percent (Table 1).

**Bond Ratings**

Virginia maintained a "AAA" rating from all three bond rating agencies throughout the 1998-2007 period under review. Only five other states had this high rating throughout the period.

The ten-year period under review includes the significant economic growth of the late 1990s, reflected in three consecutive years of double-digit growth in Virginia’s general fund (general funds are not statutorily restricted and may be used for any of the general purposes of government). The nationwide recession in 2001 quickly affected Virginia’s budget, reflected in both the lowest growth rate of the decade under review and a decrease of \$270 million in the FY 2002 general fund budget.

By FY 2004, general fund appropriations had returned to their FY 2001 level after a year of decline and two more years of slow growth. In FYs 2005-2007, the effects of an improved economy along with tax policy changes adopted during the 2004 Special Session resulted in three years of above-average increases in general fund appropriations.

**Table 1: Virginia Operating Appropriations (\$ in Millions)**

Fiscal Year	General Fund	Percent Change	Non-General Fund	Percent Change	Total	Percent Change
1998	\$8,715	--	\$8,905	--	\$17,621	--
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
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
1998-2007		95.4%		102.8%		99.2%
Average Annual Change		6.3%		6.9%		6.5%

Source: Appropriation Acts.

Virginia’s overall fiscal picture is driven by numerous factors. As a fast-growing State, there were more people paying taxes and requiring public services in 2007 than in 1998. Economic factors were also at work—wages and personal income, for example, outpaced the nation during the period. As for spending, budget growth in only a few State agencies account for the bulk of the new spending. The reason for this budget growth is often not just increases in workload because policy decisions were made throughout the period that also increased State spending.

**INFLATION, POPULATION GROWTH, AND THE STATE ECONOMY CONTRIBUTED TO BUDGET TRENDS**

**Inflation Increased 28 Percent**

Inflation explains some of the increase in Virginia’s budget. As measured by the consumer price index (CPI) over the ten-year period from FY 1998 through FY 2007, inflation increased 28 percent. This means that the State budget would have had to increase by that percentage just to maintain the same service levels as in FY 1998. Controlling for the effects of inflation, Virginia’s total appropriations increased 60 percent over the period, instead of the unadjusted 99 percent (Table 2).

Adjusting for inflation can help better explain underlying budget changes, because the procedure can convert (in this case) FY 1998 appropriations into FY 2007 dollars. Just keeping up with inflation since 1998 would have required an additional \$920 million for direct State aid to education, for example.

Any given State agency or program may experience faster or slower rates of inflation depending on the particular mix of goods and services purchased. For example, Virginia’s Medicaid budget increased 122 percent over the ten-year period from 1998 to 2007, faster than the overall rate of inflation. After taking medical care inflation into account, however, (which, according to the U.S. Bureau of Labor Statistics, increased 43 percent over the period), the Medicaid budget increased only 55 percent over the same period.

**Table 2: Effects of Inflation and Population Growth on Appropriations, FY 1998 to FY 2007**

	<b>10-Year Cumulative Percent Change</b>	<b>Average Annual Percent Change</b>
Final Legislative Appropriations	99%	6.5%
Inflation Adjusted	60	3.9
Per Capita Inflation Adjusted	38	3.7

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

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

Virginia became more populous over the period under review. Virginia's population increased an estimated 12 percent or from 853,000 to 7.64 million between 1998 and 2006, the most recent year for which estimates are available from the Weldon Cooper Center at the University of Virginia. The U.S. Census Bureau indicates that Virginia was the 12<sup>th</sup> fastest growing state between 2005 and 2006 (up from 16<sup>th</sup> between 2004 and 2005).

Taking both inflation and population growth into account, Virginia's budget grew 38 percent over the period, for an average annual rate of 3.7 percent. These effects are shown in Table 2.

Ten of the 100 fastest-growing counties in the United States are in Virginia, based on Census Bureau findings. However, 33 localities (17 counties and 16 cities) lost population during the period, according to the Cooper Center. Localities that are gaining population tend to have different public sector priorities—emphasizing school construction and infrastructure, for example, more than economic development—than localities that are losing population.

Changes in population levels and demographics can drive public sector budgets. 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 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 65 years of age) increased eight percent faster than the overall population between 2000 and 2005, according to the Census Bureau. Over the same period, public school enrollment grew more slowly than the overall population.

### **Virginia's Economic Growth Outpaced the Nation's**

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

Several key economic indicators point to Virginia's strong performance during the period under review. The State moved up in its ranking among the 50 states from 14<sup>th</sup> to 7<sup>th</sup> in per capita personal income over the period, for example. On an inflation-adjusted basis, personal income in Virginia rose 25 percent between 1998 and 2006 (the most recent year for which data is available), compared to personal income nationwide, which increased 18

percent. Controlling for population growth as well as inflation, per capita income in Virginia increased 14 percent over the period, compared to nine percent for the nation. By 2006, five of the top 20 counties in the United States, in terms of median income, were in Virginia (Loudoun, Fairfax, Prince William, Arlington, and Stafford), according to George Mason University's Center for Regional Analysis.

Virginia's status in terms of the labor force is also strong. Virginia's unemployment rate ranked 47<sup>th</sup> (fourth lowest) among the states in unemployment in 2007. Total employment in Virginia rose 12.4 percent over the ten-year period under review, as 416,000 jobs were added, totaling 3.79 million employed in June 2007, according to the U.S. Bureau of Labor Statistics. Job growth nationwide increased at a slower, 9.6 percent rate during the period.

Job growth was strongest in Virginia's services sector, with a 19 percent increase in the number of service-providing jobs in the ten years ending in 2007. Virginia's manufacturing sector, on the other hand, saw a 24 percent decline in employment between 1998 and 2007. Virginia's share of the gross domestic product (GDP) also increased over the decade. When adjusted for inflation, Virginia's GDP increased 32 percent between 1998 and 2006, according to the U.S. Bureau of Economic Analysis. Virginia's growth over the period thus compares favorably to the 22 percent inflation-adjusted increase in the U.S. GDP.

Table 3 shows key indicators of Virginia's growth in terms of population, the economy, and State finances (dollars are not adjusted for inflation).

## **STATE AND FEDERAL POLICY DECISIONS CONTRIBUTED TO BUDGET GROWTH**

While inflation, population growth, and economic growth help explain State budget growth, additional factors are also at work. The legacy of policy decisions establishing programs and services for specific populations means that the respective budgets will reflect changes in these populations. Virginia's budget also fluctuated with federal, State, and in some cases local decisions to expand or diminish programs and activities.

### **Key Workload Indicators of Major State Agencies Have Generally, But Not Uniformly, Increased**

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 oth-

**Table 3: Key Demographic and Economic Changes in Virginia**

Indicator	1998	2006 (except as noted)	Percent Change
<b>Population</b> (estimated)	6,789,225	7,642,884	12%
<b>Economy</b>			
Total Employment in Virginia (Non-Farm, June)	3,370,400	3,786,800 (2007)	12%
Total State Personal Income (\$ Billions)	\$190.5	\$299.4	57
Average Home Sales Price (June)	\$127,823	\$287,209 (2007)	125
Average Weekly Wages	\$604	\$847	40
<b>State Finance</b>			
State Operating Budget (\$ Millions)	\$17,621	\$35,095 (2007)	99
Maximum State Employment Level	107,106	116,259 (2007)	9
Average State Employee Salary	\$28,664	\$40,302	41
Taxable Sales (\$ Billions)	\$60.1	\$77.3 (2005)	29
Individual Income Tax Returns Filed (Millions)	2.9	3.3 (2004)	14

Note: Dollars not adjusted for inflation.

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

ers declined. The link between measurable workloads and an agency or program budget is not always clear or consistent, as illustrated in Table 4.

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 policy decisions to change programs, staffing, and funding levels. The increased use of technology can also affect costs. The impact of these other factors can perhaps be seen most clearly in agencies where growth in workload or service population increased more slowly than the real (inflation-adjusted) growth in the agency or program budget.

One example is the inflation-adjusted budget for direct aid to education, which grew 37 percent during the period—faster than elementary and secondary education enrollment, but more slowly than the number of instructional positions. An increase in the number of teachers, with increased salaries, tends to push up the budget for direct State aid to localities for education. This happens in part because the State's direct aid budget is "re-benchmarked" on a biennial basis to take into account the higher prevailing (typical) school division costs in providing programs to meet the State Standards of Quality (SOQ).

**Table 4: Agency Workloads and Inflation-Adjusted Agency Budgets Do Not Always Move in Tandem (FY 1998 to FY 2006, except as noted)**

<b>Workload Indicator or Specific Budget</b>	<b>Percent Change</b>
Elementary and Secondary Education Enrollment (average daily membership)	9%
Elementary and Secondary Instructional Personnel Positions	48
Direct Aid to Education Budget	37
<b>4-Year Public Colleges &amp; Universities:</b>	
Enrollment (FTEs)	15
Mandatory Tuition & Fees (In-State, adjusted for inflation; through 2007)	25
Budgets	46
Medicaid Eligible Recipients	29
Children’s Health Insurance Program Enrollment (SCHIP/FAMIS; since 1999)	1,500+
Medical Assistance Services (Medicaid) Budget, adjusted for medical care inflation	48
Registered Vehicles	26
Vehicular Mileage	6
Lane-Miles of State-Maintained Roads (through 2005)	3
Bridges Rated Deficient or Obsolete	-7
VDOT Budget	50
Temporary Assistance to Needy Families (TANF), average monthly paid cases	-22
Temporary Income Benefits Program Budget	-31
State-Responsible Inmate Population (through 2007)	32
Probation & Parole Caseload (through 2007)	55
Department of Corrections Budget (through 2007)	28

Source: Agency and budget data.

The number of instructional positions increased over the period as a result of statewide funding initiatives such as those undertaken in 1998-2001 to reduce the size of kindergarten through third grade classes and to add 1,400 new elementary teachers. Additional education funding initiatives moved lottery proceeds into the direct aid budget (beginning in FY 1998) and paid for technology upgrades, teacher compensation, and school construction. These steps were intended to address perceived funding inadequacies and enhance the level of support for public education.

There are often other reasons for budget change embedded within workload and budget trends. In some cases, a program’s performance may have been judged to be inadequate at some point during the period under review, leading the State to make a concerted effort to enhance the program. Adding teachers to reduce class size reflected one such judgment. The sustained effort to enroll children in the Medicaid program through FAMIS (Family Access to Medical Insurance Security) is another example. This program began and grew significantly during the review period—FAMIS started enrolling children in FY 1999 and by FY 2007 had more than 80,000 children enrolled and a budget of \$83 million.

In other cases, such as the portion of the total inmate population for which the State is responsible, the population served by the

agency increased at about the same rate as the real (inflation-adjusted) growth in the agency's budget. The probation and parole caseload, also overseen by the Department of Corrections, grew at a much faster rate than the inmate population, indicative of the compounding pressures on an agency budget.

In still other agencies, both budget levels and service populations declined over the past decade. A good example is the inflation-adjusted appropriation for Temporary Assistance to Needy Families (TANF), which declined by almost one-third, while the number of TANF cases declined 22 percent over the period. TANF is operated by the Department of Social Services. These declines stemmed from Virginia's welfare reform initiative in the 1990s and subsequent federal program changes.

### **Federal Mandates and Nationwide Programs Helped Drive State Spending**

Federal funds accounted for \$4.9 billion or 14 percent of Virginia's FY 2007 budget of \$35.1 billion. 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 \$2.6 billion in federal funds (53 percent of all federal funds in Virginia's budget) and a total budget of \$5.3 billion in FY 2007. The State "match rate" for Medicaid may change annually, although since 2004 it has been an even split of 50 percent federal and 50 percent State funds. During the ten-year period under review, the State share for Medicaid was as low as 48.13 percent in FY 2002. Even such a small change in the match rate can have a substantial effect in a program with a budget in the billions of dollars.

Virginia has accommodated a variety of mandatory federal enhancements of the Medicaid program over the years. Recent examples of federally-required spending increases include rate increases for certain Medicaid-funded services (\$17 million in State general funds in FY 2005), State funding to implement the federal Medicare Part D prescription drug benefit (\$18 million in general funds in FY 2007), and early intervention services for certain young children (\$8 million in general funds in FY 2005).

Additional federal mandates funded in the budget include

- the No Child Left Behind Act and special education funding requirements, administered by the Department of Education;

- 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;
- the Help America Vote Act, which provides federal funds for election equipment and other improvements; and
- the Real ID Act, administered by the Department of Motor Vehicles.

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 geographic proximity to Washington, D.C., and the large military presence in the State. For instance, in federal FY 2004, Virginia ranked second among the states in total federal spending per capita. In that year, the federal government spent at least \$90 billion in Virginia, according to the Center for Regional Analysis at George Mason University. Much of this was spent on federal payroll for employees residing in Virginia and on federal contractors based in Virginia.

Although Virginia receives 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 47<sup>th</sup> and 50<sup>th</sup> among the states in terms of per capita receipt of federal grant awards. These issues are discussed more fully in the 2003 JLARC report, *Review of Virginia's Activity in Maximizing Federal Grant Funding*.

Other programs that are nationwide in scope also contribute to State budget growth, as in the examples noted earlier—FAMIS, Medicare Part D—and programs such as the 1998 Tobacco Master Settlement Agreement. Virginia has received and appropriated more than \$535 million since the program began in FY 2000. In FY 2007, the State received \$40 million under this agreement. By statute, Virginia chose to appropriate 50 percent of this funding to the Tobacco Indemnification and Community Revitalization Commission for the purpose of compensating Virginia tobacco farmers for the decline and elimination of tobacco quotas, and for promoting economic growth in Virginia's tobacco-dependent communities. An additional share of these funds is appropriated for the preven-

tion of tobacco usage and is administered by the Virginia Tobacco Settlement Foundation.

### **Virginia Initiatives Triggered Spending**

State initiatives and policy choices also drive State spending. During the ten-year period of this review, Virginia embarked on policy and program 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, such as eliminating the personal property tax on vehicles. In other cases, the initiatives stemmed from legislative or other sources. Once enacted, however, these initiatives tend to remain in the budget as significant sources of spending, even if their growth is uneven. Background information on many of these initiatives is described more fully in prior JLARC reports on State spending (see, for example, the reports from [January 2002](#) and [December 2005](#)).

For example, three major initiatives (two of which began during the ten-year period under review) had FY 2007 general fund appropriations totaling \$1.7 billion—ten percent of the total general fund budget. In FY 1998, just \$103 million in general funds was appropriated to the two then-existing programs.

**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 as an amendment to the *Constitution of Virginia*. The fund acts as a savings account for the Commonwealth and can be used only under the very limited conditions specified in the *Constitution*.

The first appropriation to the fund of \$79 million occurred in FY 1995. In FY 1998, \$58 million was appropriated to the fund. Over the past decade, withdrawals have been made from the fund three times—in FYs 2002, 2003, and 2004. FY 2005 marked the State's return to depositing money into the fund with an appropriation of \$134.5 million. In FY 2006, \$584.2 million was deposited into the fund, and in FY 2007, \$107 million.

**Personal Property Tax Relief Program.** The personal property tax relief program provides tax relief for individuals who own and are taxed on vehicles up to \$20,000 in value. The program was approved by the 1998 General Assembly and was initially designed so that the tax would be phased out over a period of five years. In FY 1999, the program received its first appropriation of \$220 million, which was based on a 12.5 percent phase-out of the tax. Due to fiscal difficulties faced by the State starting in FY 2002, the phase-out was capped at 70 percent of assessed taxes. By FY 2007,

the program had grown to \$950 million and remained capped at the 70 percent phase-out rate.

**General Funds for Transportation.** A significant funding initiative over the last several years has been the appropriation of State general funds for transportation, which in the past had been principally funded with non-general funds such as gasoline tax revenues. Beginning in FY 1991, general funds of \$15 million to \$45 million per year were appropriated to the Virginia Department of Transportation (VDOT). This represented less than three percent of the agency's budget.

Due to declining transportation funds and increasing needs, the 2000 General Assembly provided \$326 million in general funds to stabilize and update the six-year highway construction program, marking the first major infusion of general funds into VDOT's budget (the \$326 million represented 11 percent of the agency's FY 2000 budget). This was followed by the 2001 General Assembly's establishment of the Priority Transportation Fund, with an initial deposit of \$147 million in general funds. From FY 2003 through FY 2007, the general fund portion of VDOT's budget varied from \$141 million to \$643 million.

## **OTHER FACTORS ALSO HELPED DRIVE UP THE BUDGET**

Historical and technical factors also help explain budget growth. State-level decisions in the 1960s and 1970s to include in the budget funds whose uses are already governed by statute—non-general funds—now account for more than half the total budget.

Also working to increase the budget's growth rate is a multiplier effect stemming from separate but interrelated decisions, such as decisions to increase the number of employees in a particular agency or program and to provide all State employees with a cost of living salary adjustment.

### **Some Non-General Funds Grew Faster Than the General Fund**

A key reason for consistent growth in the State budget, even in FY 2002 when the general fund declined, has been the steadier, less volatile growth of non-general funds. As shown in Table 1, non-general funds grew 103 percent over the period, outpacing the 95 percent growth in the general fund. The annual non-general fund growth rate varied over a narrower range, from 2.8 percent to a high of 12.2 percent during the period, compared to the wider swing in the general fund, from a decline of -2.2 percent in FY 2002 to a high of 14.4 percent in FY 1999.

**Non-General Funded Agencies**

18 State agencies were funded entirely with non-general funds in FY 2007. The largest were the Departments of Rail & Public Transportation, Motor Vehicles, and Alcoholic Beverage Control.

The inclusion of earmarked 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 there are fewer annual decisions to make 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 the Department of Accounts. The State accounting system groups monies from all these sources into just nine broad categories of funds, shown in Table 5. (Major uses of non-general funds are listed in Appendix H.)

Growth in some of the non-general fund categories exceeded the general fund’s growth rate. 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, 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.

The non-general funds with the highest growth rates are relatively small. Dedicated special revenue funds, which grew more than 400 percent to \$638 million (1.8 percent of the FY 2007 budget), consist of money from specific fees and payments that are restricted to the related activity. Examples include the State’s revolving funds (such as the safe drinking water revolving fund), the game protec-

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

Fund Category	FY 1998	FY 2007	Percent Change
Dedicated Special Revenue	\$123	\$638	419%
Debt Service	92	234	154
Trust & Agency	463	1,083	134
Enterprise	366	850	132
Higher Education	2,219	4,853	119
General	8,715	17,033	95
Federal	2,596	4,872	88
Commonwealth Transportation	2,106	3,929	87
Special	940	1,603	71
<b>Total</b>	<b>\$17,621</b>	<b>\$35,095</b>	<b>99%</b>

Note: Totals may not add due to rounding.

Source: Appropriation Acts.

tion fund, the solid waste management permit fee fund, and the nursing scholarship and loan repayment fund.

Debt service fund growth of 154 percent to \$234 million (0.7 percent of the FY 2007 budget) reflects the State's increased issuance of bonds. Proceeds are used mainly for construction-related expenses at the Commonwealth's toll roads and universities.

Trust and agency funds grew at the third-fastest rate, to \$1.083 billion (three percent of the FY 2007 budget). These funds are used to account for money held by the State as custodian or trustee for individuals and certain organizations. Examples include unemployment insurance, tobacco settlement funds, and various types of interest payments.

Enterprise funds, used to account for self-supporting governmental activities that provide goods and services to the general public, also outpaced general fund growth. Enterprise funds grew 132 percent to \$850 million (2.4 percent of the FY 2007 budget). Major components of enterprise funds include revenue from the sale of lottery tickets, alcoholic beverage sales at State ABC stores, and the college savings plan.

The higher education fund, another type of non-general fund, outpaced general fund growth over the period, growing at a rate of 119 percent to \$4.853 billion (13.8 percent of the FY 2007 budget). This fund consists of tuition and fee payments by students at Virginia's colleges and universities, revenues generated by campus-related activities, and university hospital revenues at, for example, the University of Virginia Medical Center. A combination of enrollment growth, increased tuition and fees, increased revenues at university hospitals, and other factors help explain this increase.

### **Separate But Interrelated Decisions Have a Multiplier Effect on Cost Increases**

Also at work increasing the budget is a multiplier effect from separate but interrelated decisions, as illustrated in Exhibit 1. This multiplier effect explains how the total budget can at times increase faster than the increases in its component parts.

The multiplier effect noted in Exhibit 1 stems from more employees making more money over time. While the real world is more complex than in the example, the multiplier seems to be at work in personal services spending. This category of spending includes salaries, benefits, and related expenditures, and also includes other factors such as payments to wage employees (whose numbers are not tracked in the State budget) and disability payments.

This multiplier effect may be seen in actual personal services spending, which increased 60 percent (unadjusted for inflation) between FY 1998 and FY 2007. This 60 percent overall increase exceeded the increases in both the number of full-time State employees (the position level in the Appropriation Act), which increased 8.5 percent, and salary actions affecting State employees, which taken over the period amounted to 29 percent (assuming an employee received each raise provided and excluding the effects of one-time actions taken during the period).

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### **Exhibit 1: The Multiplier Effect: Separate but Interrelated Decisions Interact to Cause Unexpectedly Rapid Budget Increase**

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*Example: Interaction between salary increases and staffing levels*

An agency has 100 employees, each receiving \$30,000 per year.

Total salaries: 100 employees X \$30,000 salary = \$3,000,000

The agency opens new programs or facilities over a five-year period, adding 100 more employees—a 100% increase in staffing levels. Over the same period, the employees receive annual cost of living adjustments of 3%, and new employees receive the same salary as existing employees (a typical practice).

The budget effects:

100 original employees + 100 new employees = 200 employees

\$30,000 initial salary X 3% per year cost of living adjustment each year  
for 5 years = \$34,778 (15.93% increase)

Total salaries in the sixth year: 200 employees X \$34,778 salary = \$6,955,644 (132% increase)

The Multiplier Effect:

100% increase in the number of employees, 15.93% increase in salaries, but a 132% increase in the personnel budget.

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# Chapter 2

## Most Budget Growth Occurred in a Few State Agencies and Programs

### In Summary

Most of the State budget, as well as most budget growth, is concentrated in a handful of agencies and programs representing core activities of State government. The 20 largest State agencies (of 156 agencies) accounted for 83 percent of the entire State budget in FY 2007 and 86 percent of all budget growth between FYs 1998 and 2007. Eight agencies accounted for two-thirds of the ten-year budget growth. Growth in budget programs was also concentrated in a few large core programs: 12 (of 203) programs in education, health care, and transportation accounted for 65 percent of all budget growth. Growth in general fund appropriations is also concentrated in a few large agencies and programs.

This chapter describes budget growth in State government among agencies, programs, government functions and secretarial areas over the past ten years, and identifies the largest and fastest growing areas within State government. Budget growth within the agencies is further broken down between general and non-general funds.

### MOST BUDGET GROWTH OCCURRED IN A FEW AGENCIES

While the overall State budget (including general and non-general funds) grew 99 percent (unadjusted for inflation) between FY 1998 and FY 2007, a few large agencies dominated the budget throughout the period.

With few exceptions, the largest agencies in FY 1998 in terms of appropriations were also the largest in FY 2007 (Tables 6 and 7). Only two agencies among the 20 largest in FY 1998 were no longer among the 20 largest by FY 2007: the Department of Juvenile Justice and Old Dominion University. These agencies did not grow as fast as the others during the period.

The new items among the largest appropriations in FY 2007 include the personal property tax relief program (defined here as an agency), the Department of Environmental Quality (DEQ) and the Department of Rail and Public Transportation (DRPT). The personal property tax relief program began in 1999 and is now the seventh largest recipient of State funding, representing three percent of the FY 2007 State budget. Both DEQ and DRPT had specific appropriations to boost water quality programs and public

#### Small Agencies

In FY 2007, 45 agencies had annual appropriations of less than \$5 million. The smallest was the \$229,270 appropriation to the Chippokes Plantation Farm Foundation.

**Table 6: Largest Agency Appropriations, FY 1998**

Rank	Agency	Appropriation FY 1998 (\$ in Millions)	Percentage of State Budget
1	Department of Education—Direct Aid to Education	\$3,413.6	19%
2	Department of Medical Assistance Services	2,396.7	14
3	Virginia Department of Transportation	2,048.3	12
4	Department of Social Services	958.2	12
5	University of Virginia (including Medical Center)	872.9	5
6	Department of Corrections	586.6	3
7	Department of Mental Health, Mental Retardation and Substance Abuse Services	569.9	3
8	Virginia Tech	460.5	3
9	Virginia Commonwealth University	414.5	2
10	Compensation Board	397.9	2
11	Virginia Community College System	391.1	2
12	Virginia Employment Commission	367.9	2
13	Virginia Department of Health	353.5	2
14	George Mason University	247.7	1
15	Department of Alcoholic Beverage Control	233.5	1
16	Department of Juvenile Justice	166.2	1
17	James Madison University	160.0	1
18	Old Dominion University	158.6	1
19	Treasury Board	155.9	1
20	Department of Motor Vehicles	149.6	1
<b>Total, 20 Largest Agencies</b>		<b>\$14,503.3</b>	<b>82%</b>
<b>Total, All Operating Appropriations</b>		<b>\$17,620.7</b>	<b>100%</b>

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

Source: 1998 Appropriation Act (Chapter 889).

transportation activities, respectively, toward the end of the ten-year period.

The Department of Education had the largest budget over the ten-year period. Its share of the total State budget held steady at 19 percent. The Department of Medical Assistance Services (DMAS) and the Department of Transportation (VDOT) ranked second and third, respectively, throughout the period. The proportions of the total budget allocated to these two agencies also remained stable.

Rounding out the five largest appropriations at the beginning and end of the ten-year period were the University of Virginia (UVA) and the Department of Social Services (DSS), although they traded places during the period, with UVA moving into fourth place by FY 2007.

### **Twenty Agencies Had 86 Percent of the Growth**

Virginia's budget grew \$17.5 billion between FY 1998 and FY 2007. This growth was concentrated in a relative handful of.

**Table 7: Largest Agency Appropriations, FY 2007**

Rank	Agency	Appropriation FY 2007 (\$ in Millions)	Percentage of State Budget
1	Department of Education—Direct Aid to Education	\$6,566.9	19%
2	Department of Medical Assistance Services	5,320.5	15
3	Virginia Department of Transportation	4,183.5	12
4	University of Virginia (including Medical Center)	1,904.5	5
5	Department of Social Services	1,739.0	5
6	Department of Corrections	957.0	3
7	Personal Property Tax Relief	950.0	3
8	Virginia Tech	874.4	2
9	Department of Mental Health, Mental Retardation and Substance Abuse Services	870.2	2
10	Virginia Community College System	859.4	2
11	Virginia Commonwealth University	780.1	2
12	Virginia Employment Commission	612.7	2
13	Compensation Board	608.3	2
14	George Mason University	572.6	2
15	Virginia Department of Health	530.2	2
16	Department of Alcoholic Beverage Control	476.1	1
17	Department of Environmental Quality	382.9	1
18	Department of Rail & Public Transportation	360.5	1
19	Treasury Board	356.9	1
20	James Madison University	341.4	1
<b>Total, 20 Largest Agencies</b>		<b>\$29,247.1</b>	<b>83%</b>
<b>Total, All Operating Appropriations</b>		<b>\$35,094.6</b>	<b>100%</b>

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

Source: 2007 Appropriation Act (Chapter 847).

agencies; the 20 agencies shown in Table 8 accounted for 86 percent of this growth

Budget growth was concentrated among the traditional core agencies of State government, along with the personal property tax relief program. Fifty-three percent of all budget growth occurred in just four agencies: the Departments of Education, Medical Assistance Services, Transportation, and the University of Virginia. Adding four more agencies—the personal property tax relief program, the Department of Social Services, the Community College System, and Virginia Tech—accounts for two-thirds of the ten-year growth in Virginia’s budget.

Agencies with the largest dollar increases are generally those with the largest appropriations. The top five agencies in Table 8 are also the top five in Table 7, listing largest appropriations in FY 2007, and there is considerable overlap in the remaining 15 in each table. The top four agencies in Table 8 each had growth of more than \$1 billion over the ten-year period.

**Table 8: Twenty Agencies With the Most Growth in Total Appropriations, FYs 1998-2007**

Rank	Agency	Change in Total Appropriation (\$ in Millions)	Percentage of Total Budget Growth
1	Department of Education—Direct Aid to Education	\$3,153.3	18%
2	Department of Medical Assistance Services	2,923.8	17
3	Virginia Department of Transportation	2,135.2	12
4	University of Virginia (including Medical Center)	1,031.5	6
5	Personal Property Tax Relief Program	950.0	5
6	Department of Social Services	780.8	4
7	Virginia Community College System	468.2	3
8	Virginia Tech	413.9	2
9	Department of Corrections	370.3	2
10	Virginia Commonwealth University	365.6	2
11	George Mason University	324.9	2
12	Department of Mental Health, Mental Retardation and Substance Abuse Services	300.4	2
13	Department of Environmental Quality	266.5	2
14	Department of Rail & Public Transportation	255.7	1
15	Virginia Employment Commission	244.8	1
16	Department of Alcoholic Beverage Control	242.6	1
17	Compensation Board	210.3	1
18	Treasury Board	201.1	1
19	James Madison University	181.4	1
20	Virginia Department of Health	176.7	1
<b>Total for 20 Agencies With the Most Growth</b>		<b>\$14,997.3</b>	<b>86%</b>
<b>Total Budget Growth, All Agencies</b>		<b>\$17,473.9</b>	<b>100%</b>

Note: Not adjusted for inflation. Operating appropriations only; excludes capital appropriations. Table is based on agencies with at least \$5 million in appropriations in FY 1998. Totals may not add due to rounding.

Source: 1998 and 2007 Appropriation Acts.

Two other areas experienced high growth in appropriations. First, institutions of higher education (including the community college system) comprised six of the 20 agencies with the most growth between FY 1998 and FY 2007. These six accounted for \$2.8 billion or 16 percent of the \$17.5 billion increase for all agencies. Second, the personal property tax relief program, which began in 1999 in order to provide tax relief to Virginia residents, had the fifth largest increase in appropriation growth over the period, increasing to a FY 2007 total of \$950 million.

**General Fund Growth Is Also Concentrated in a Few Agencies**

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 statewide taxes such as the income and sales taxes, and have broad public interest. The unspecified use of these revenues also means that general funds are of particular interest to budget decision-makers.

In FY 2007, the State appropriated \$17 billion in general funds, which represented slightly less than half of total appropriations. Most of the growth in general fund appropriations was also focused on a relative handful of agencies.

***General Fund Appropriation Growth Is Concentrated in a Few Agencies.*** A few large agencies received most of the new general fund dollars between FY 1998 and FY 2007. The 13 agencies each receiving more than \$100 million in new general funds during the period accounted for 86 percent of all general fund growth. The 20 agencies with the most growth in general fund appropriations (13 percent of all State agencies) accounted for 92 percent of all general fund growth over the period (Table 9).

The four agencies with the most general fund budget growth—Direct Aid to Education, DMAS, the personal property tax relief program, and VDOT, each receiving more than \$500 million in new general funds—accounted for 65 percent of all general fund growth during the period. Direct Aid to Education accounted for 31 percent of State general fund budget growth. DMAS, ranking second on the list, accounted for 15 percent of all general fund growth during the period. In FY 2007, DMAS received about 45 percent of its funding from the general fund, in comparison with the Direct Aid to Education budget, which received 86 percent of its funding from general funds.

As discussed in Chapter 1, both the personal property tax relief program and the infusion of general funds into VDOT reflects policy initiatives began during the period under review and continued through FY 2007. In the case of VDOT, general funds were used to supplement lagging non-general funds, traditionally the principal funding source for the agency. The amount of general funds in VDOT's budget was just \$45 million in FY 1998, reaching a peak of \$642.7 million in FY 2007.

In addition to the three agencies with the greatest general fund budget growth, two other agency groups deserve mention. Five of the 20 high-general fund growth agencies are in higher education, including the Virginia Community College System, George Mason University, Virginia Commonwealth University, Virginia Tech, and Old Dominion University.

Four of the 20 high-general fund growth agencies are public safety-related: the Department of Corrections, the Compensation Board (the bulk of whose funding goes to local sheriffs and jail operations), the Department of Criminal Justice Services, and the Department of State Police.

**Table 9: Agencies With the Most General Fund Growth, FYs 1998-2007 (\$ in Millions)**

Rank	Agency	Growth in Total Appropriations
1	Department of Education—Direct Aid to Education	\$2,604.3
2	Department of Medical Assistance Services	1,244.2
3	Personal Property Tax Relief Program	950.0
4	Virginia Department of Transportation	597.7
5	Department of Corrections	351.4
6	Department of Mental Health, Mental Retardation and Substance Abuse Services	226.2
7	Department of Environmental Quality	213.9
8	Treasury Board	206.4
9	Compensation Board	202.9
10	Virginia Community College System	172.7
11	Department of Criminal Justice Services	131.1
12	Department of Social Services	128.5
13	Comprehensive Services for At-Risk Youth and Families	115.8
14	Department of State Police	87.1
15	George Mason University	68.4
16	Virginia Commonwealth University	64.2
17	Virginia Tech	61.9
18	Old Dominion University	55.0
19	Virginia Department of Health	50.1
20	Revenue Stabilization Fund	48.4
<b>Total for 20 Agencies With the Most General Fund Growth</b>		<b>\$7,619.0</b>
<b>Total General Fund Budget Growth</b>		<b>\$8,318.0</b>

Source: Appropriation Acts.

**General Fund Growth Rates in Agencies Reflect Initiatives.** Just 12 agencies had general fund growth rates that exceeded the general fund growth rate of 95 percent in the overall State budget (Table 10). It is interesting to note that not all of the leaders in terms of new dollars in Table 9 also appear in Table 10. Direct Aid to Education, for example, the single largest item in the State budget, had general fund growth of 85 percent over the period, below statewide average growth.

The percentage leaders in Table 10 reflect specific policy initiatives during the period. The three agencies with the highest percentage growth—the personal property tax relief program, VDOT and DEQ—reflect decisions about tax relief and enhancing the transportation and water quality improvement programs. Growth in the personal property tax relief program and VDOT’s general fund budget was discussed above. A series of water quality initiatives funded by the 2006 General Assembly added \$221 million in general funds to DEQ’s budget. The largest of these initiatives involved \$200 million in general funds to upgrade wastewater treatment plants in the Chesapeake Bay region.

**Table 10: Agencies With Growth Rates Exceeding That of the General Fund  
FY 1998 to FY 2007 (\$ in Millions)**

Rank	Agency	FY 1998 General Fund Appropriation	FY 2007 General Fund Appropriation	Percentage Increase
1	Personal Property Tax Relief Program	0	950.0	N/A
2	Virginia Department of Transportation	\$45.0	\$642.7	1,328%
3	Department of Environmental Quality	42.8	256.7	500
4	Indigent Defense Commission <sup>a</sup>	14.4	36.2	152
5	Treasury Board	151.0	347.4	130
6	Department of Criminal Justice Services	108.8	239.9	120
7	Comprehensive Services for At-Risk Youth and Families	100.6	216.4	115
8	Department of Conservation and Recreation	26.2	55.6	113
9	Supreme Court	11.3	23.9	112
10	Department of Medical Assistance Services	1,164.3	2,408.5	107
11	Longwood University	14.3	28.8	101
12	Department of Military Affairs	5.1	10.2	98

Note: Table based on agencies with general fund appropriations of at least \$5 million in FY 1998. General fund appropriations in the State budget increased 95 percent between FY 1998 and FY 2007. N/A=Not Applicable.

<sup>a</sup>Previously the Public Defender Commission.

Source: 1998 and 2007 Appropriation Acts.

The fourth entity in Table 10 also reflects a specific initiative. Legislation was enacted in 2004 to create the Indigent Defense Commission, to provide oversight and support for all attorneys (whether public defenders or members of the private bar) who furnish indigent defense services in the Commonwealth. Additional general funds were provided in support of this action.

Growth in the Treasury Board’s general fund appropriation (fifth-ranked in Table 10) stems from the State’s increasing use of bonded debt and re-funding to take advantage of improved interest rates. Growth in the Department of Criminal Justice Services’ general fund budget (ranked sixth in Table 10) stems primarily from the decision by the 1999 General Assembly to add \$99 million to the “HB 599” program of financial assistance to localities, beginning in FY 2000. This program (named for the 1979 legislation that established it) provides State financial aid to localities with police departments, although the funding is not required to be spent on law enforcement.

**General Funds in Some Agencies Grew More Slowly Than Inflation, or Declined**

While some agencies saw their general fund appropriations grow at above-average rates, 13 agencies had those appropriations grow more slowly than inflation or decline over the ten-year period (Table 11). However, several of the agencies listed in Table 11 had

overall budget growth in excess of inflation due to other sources of revenue that grew more rapidly. This means they had non-general fund revenue that increased faster than their general fund appropriation. For example,

*The Library of Virginia had overall budget growth of 39 percent, well above the 28 percent rate of inflation over the period. The Library's non-general fund appropriation doubled over the period, from \$4.8 million to \$9.9 million. Much of this came from a special fund appropriation beginning in FY 1999 for preservation of circuit court records.*

\* \* \*

*The Virginia Military Institute saw overall budget growth of 67 percent, although its general fund appropriation grew just 24 percent. Most of the difference came from increased higher education operating funds—including a substantial increase in tuition and mandatory fees. These increased 58 percent between FY 2000 (the earliest year for which the data is available) and FY 2007.*

\* \* \*

*The Museum of Fine Arts had general fund growth of just 12 percent, but its overall budget grew 47 percent, well above inflation, once dedicated special revenue is included. In FY 1998, the Museum's budget showed no dedicated special revenue. By FY 2007, the budget contained \$7 million of such funding, which comes from private donors for the purpose of augmenting museum operations.*

Other agencies in Table 11 did not, however, see much growth in their non-general fund appropriations. The Department of Juvenile Justice had total budget growth of 23 percent over the period, slightly above its 21 percent general fund growth. This stems largely from budget cuts in the 2002-2004 timeframe that were not restored and from a 16 percent decline over the ten-year period in the average daily population of State-responsible juvenile offenders.

The Department of Taxation's decline is somewhat anomalous, as the agency's FY 1998 budget included \$63 million in general funds for a court settlement stemming from a U.S. Supreme Court case earlier in the decade on Virginia's tax treatment of federal retirees. By FY 2007, funding was no longer needed for this purpose. The department's budget grew 86 percent over the period if this settlement funding is removed from the agency's FY 1998 budget.

**Table 11: Agencies Whose General Fund Appropriation Grew More Slowly Than Inflation, FY 1998 to FY 2007 (\$ in Millions)**

Agency	FY 1998 General Fund Appropriation	FY 2007 General Fund Appropriation	Percentage Change
Library of Virginia	\$24.6	\$31.1	26%
Department of Agriculture & Consumer Services	22.3	27.7	24
Virginia Military Institute	12.4	15.4	24
Department of Juvenile Justice	170.0	206.4	21
Auditor of Public Accounts	8.1	9.7	20
Department of Labor & Industry	6.4	7.4	16
Virginia Museum of Fine Arts	7.3	8.2	12
Department for the Blind & Visually Impaired	5.8	6.5	12
Department of General Services	21.5	23.4	9
Department of Business Assistance	15.4	14.8	-4
Department of Accounts <sup>a</sup>	74.8	71.4	-6
Department of Taxation	109.0	86.1	-21
Virginia Economic Development Partnership	35.9	18.6	-48

Note: Table based on agencies with General Fund appropriations of at least \$5 million in FY 1998. Inflation ran 28 percent between FY 1998 and FY 2007.

<sup>a</sup>Includes transfer payments, excludes revenue stabilization fund (in FY 2007).

Source: 1998 and 2007 Appropriation Acts.

### **BUDGET GROWTH IN PROGRAMS ALSO FOCUSED ON CORE ACTIVITIES**

All State appropriations are classified according to the program budget structure, which includes eight broad government functions. 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.

Like growth in State agencies, growth in budget programs was concentrated among a few large programs relating to the core activities of State government: health care, education, and transportation programs experienced the most growth over the ten-year period from FY 1998 to FY 2007 (Table 12). Seventy-one percent of all budget growth during the period occurred in just 20 of the 134 programs listed in both the FY 1998 and FY 2007 budgets. Twelve of these 20 fall into three core functions.

Six education programs saw \$5.859 billion or 34 percent of all budget growth over the period (Table 12). This included two ele-

mentary and secondary education programs—Financial Assistance for Public Education (SOQ) and Financial Assistance for Special Revenue Sharing (the share of the sales tax for public education)—and four higher education programs—education and general (E&G) programs, financial assistance for E&G programs, auxiliary services, and student financial assistance.

Three health and mental health programs are included among the 20 high-growth programs, totaling \$3.667 billion or 21 percent of all budget growth: Medicaid, which experienced the largest appropriation growth over the period and accounted for 16 percent of total budget growth; State health services, which includes activities at the Department of Health, the University of Virginia Health Center, and at facilities operated by the Department of Mental Health, Mental Retardation and Substance Abuse Services and the Department of Corrections; and financial assistance for mental health services, which is primarily used for the Community Services Boards.

Three transportation programs also appear among the 20 largest program increases: highway system maintenance, highway system acquisition and construction, and financial assistance to localities for ground transportation (which principally includes payments to cities and two counties for road maintenance). Change in these transportation programs totaled \$1.114 billion, or 10 percent of total budget growth over the period.

### **SOME SECRETARIAL BUDGET GROWTH IS DUE TO REALIGNMENTS**

The secretarial system in Virginia was established by the General Assembly in 1972. Today, it consists of ten secretaries broadly reflecting the major functions of the executive branch. Two of these (agriculture and forestry, and technology) were added during the period under review, and agencies were realigned accordingly.

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

**Table 12: Twenty Largest Program Increases in Total Appropriations, FY 1998 to FY 2007**

Rank	Program	Change in Appropriations (\$ in Millions)	Percentage of Total Budget Growth
1	Medical Program Services (Medicaid)	\$2,715	16%
2	Financial Assistance for Public Education (SOQ)	2,531	15
3	Higher Education: Education & General Programs	1,411	8
4	State Health Services	826	5
5	Higher Education: Financial Assistance for Education & General Programs	772	4
6	Highway System Maintenance	544	3
7	Financial Assistance for Special Revenue Sharing (Sales Tax for Public Education)	505	3
8	Highway System Acquisition & Construction	443	3
9	Higher Education: Auxiliary Services	414	2
10	Child Support Enforcement Services	405	2
11	Alcoholic Beverage Merchandising	246	1
12	Environmental Financial Assistance	236	1
13	Higher Education Student Financial Assistance	226	1
14	Financial Assistance for Local Social Services Staff	212	1
15	Bond & Loan Retirement & Redemption	200	1
16	Financial Assistance: Self Sufficiency Programs (TANF)	159	1
17	General Financial Assistance to Localities (599, etc.)	132	1
18	Financial Assistance to Localities for Ground Transportation	127	1
19	Financial Assistance for Health Services (CSBs)	126	1
20	Personnel Management Services (State Employees' Health Plan, etc.)	119	1
<b>Total for 20 Programs With the Most Growth</b>		<b>\$12,349</b>	<b>71%</b>
<b>Total Budget Growth</b>		<b>\$17,474</b>	<b>100%</b>

Note: Not adjusted for inflation. Includes operating appropriations only, programs funded for \$5 million or more in FY 1998 that were also funded in FY 2007, and excludes capital appropriations. Totals may not add due to rounding. Personal property tax relief (car tax) program is excluded because it is considered in this report to be an agency and is shown in Tables 9 and 10. If it were included here it would rank fourth with \$950 million in growth, five percent of all budget growth over the ten-year period.

Source: 1998 and 2007 Appropriation Acts.

Table 13 shows the growth in the secretarial budgets. Education, health, and transportation continue to dominate budget growth, even when aggregated to the secretarial levels. Much of the budgetary growth in the secretariats is concentrated in a handful of areas. For example, growth in the education secretariat stems mainly from growth in the six education budget programs noted in Table 12. These six accounted for 89 percent of all the appropriations growth in the secretariat. Likewise, the three health-related programs in Table 12 accounted for 81 percent of the appropriations growth at the secretarial level, and the three transportation-related programs in Table 12 explained 44 percent of budget growth in the secretariat.

**Table 13: Budget Growth by Secretarial Area, FY 1998 to FY 2007**

<b>Secretarial Area</b>	<b>Change in Total Appropriations (\$ in Millions)</b>	<b>Percentage of Total Budget Growth</b>
Education	\$6,616	38%
Health and Human Resources	4,505	26
Transportation	2,560	15
Public Safety	1,077	6
Administration	400	2
Natural Resources	335	2
Finance	239	1
Commerce and Trade	208	1
Agriculture and Forestry	87	0.5
Technology	66	0.4
<b>Total for Secretarial Areas</b>	<b>\$16,093</b>	<b>92%</b>
<b>Total Budget Growth</b>	<b>17,474</b>	<b>100%</b>

Note: Based on agency alignments in the 2007 Appropriation Act. Excludes legislative and judicial departments, central appropriations, independent agencies, and executive offices. Appropriations not adjusted for inflation. Operating appropriations only; excludes capital appropriations. Totals may not add due to rounding.

Source: 1998 and 2007 Appropriation Acts.

# A

## Study Mandate

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*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 Activities and Methods

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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, and 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. JLARC staff currently maintain a database with appropriation data at the agency, program, and fund level from FY 1983, and appropriation data at the agency 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. Several agencies have noted 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 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 in the next section.

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 by clicking on “Fiscal Analysis” and then selecting “Fiscal Data” from the drop-down menu 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 1998 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 1998 to the present. “State of the Commonwealth” speeches by Virginia Governors were also collected and reviewed for the study period. 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 such as agency annual reports and statistical publications.

Appendix  
**C**

## The Basis of the State Budget

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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). Everything in the State budget stems from this review and approval process by the State's elected officials. The JLARC report *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 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.

This report primarily focuses on appropriations. Unless otherwise noted, appropriations used in this report are the final appropriations approved (voted on and adopted) by the General Assembly and approved by the Governor. 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* 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.

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.

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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.

## STATE “AGENCY” DEFINED

An *agency* represents the major unit of operational and budgetary control and administration of State services. Agencies are generally thought of as including a set of programs under the purview of an agency head who typically is appointed by the Governor, along with a staff who implement the agency’s programs.

There are, however, differing notions about what constitutes a State agency and how many there are. The 2007 Appropriation Act (Chapter 847) provided funding to entities identified by 187 unique agency codes. The Department of Planning and Budget assigned 199 agencies to its budget analysts in 2007, according to its website. In 2003, 144 State agencies were identified in the JLARC report, *Review of State Spending: June 2002 Update* (House Document 3). More recently, JLARC staff and the Department of Human Resource Management identified 145 agencies with classified employees.

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 720 (central office), 790 (grants to localities), 792 (mental health treatment centers), 793 (mental retardation training centers, and 794 (Virginia Center for Behavioral Rehabilitation) must be combined to arrive at a budget total for the Department of Mental Health, Mental Retardation and Substance Abuse Services.

Agency codes are sometimes used as a way of entering a new program or activity into the State financial system and ensuring budget control. Thus, the “personal property tax relief program” (746), interstate organization contributions (921), and “compensation supplements” (757) are examples of programs (just financial accounts, in reality), which have been assigned a program budget code for administrative convenience.

This report uses the Appropriation Act as a basis for identifying State agencies. The 187 unique agency budget codes are then adjusted for situations where multiple codes are assigned to a single agency, and to exclude various financial accounts, as shown in Table 1.

This process identified 156 State agencies, the number used throughout this report. While this approach consolidates DMHMRSAS programs and facilities into a single agency, it counts each of the courts—Circuit Courts, the various types of district courts, the Magistrate System, etc., as separate agencies, as does the Appropriation Act.

Like the Appropriation Act, this report treats the personal property tax relief program as a separate agency. The size of this item (\$950 million in FY 2007, larger than all but six agencies) warrants such treatment and permits it to be compared to other State spending priorities. Other entities and activities are assigned an

**Table 1: Counting State Agencies, FY 2007**

Unique Budget Codes in 2007 Appropriation Act	187
Codes assigned to DMHMRSAS Facilities & Programs	5
Codes assigned to UVA: Academic Division (207) & Medical Center (209)	2
Codes assigned to William & Mary (204) and VIMS (268)	2
Codes assigned to DRS (262) and Woodrow Wilson Rehab Center (203)	2
Codes assigned to Department for the Blind and Vision Impaired (702), and Rehab Center for the Blind and Vision Impaired (263)	2
Codes assigned to Councils, Commissions and Boards under the Division of Legislative Services	18
Codes assigned to various financial activities: DOA transfer payments (162) Central appropriations (995) Towing and Recovery operations (507) State Grants to Nonstate Agencies (986) Legislative Department Reversion Clearing Account (102) Contributions to Interstate Organizations (921)	6
Total agencies, adjusted for these situations (e.g., subtract 5 for DMHMRSAS facilities and programs, but add back 1 for the overall agency)	156

Source: 2007 Appropriation Act (Chapter 847); Department of Planning and Budget.

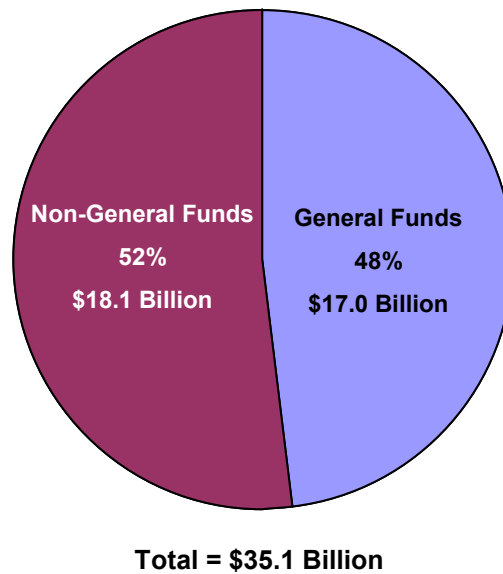
agency code in the budget, and are included in the agency count for this report. This includes entities such as the Virginia College Building Authority, the Treasury Board and various other boards and commissions that receive funding but are not necessarily typical State agencies, with offices, an appointed agency head, and staff.

**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 restricted to certain specified uses.

General and non-general funds comprised 48 and 52 percent, respectively, of the FY 2007 Virginia budget (Figure 1). This is important because the expenditure of non-general funds is controlled by their authorizing statute—thus, more than half the State budget is determined by statute more than by 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.

**Figure 1: FY 2007 Appropriations by Fund**



Source: JLARC staff analysis of Appropriation Act.



Appendix **D**

## Ten Largest Annual General Fund Increases, 1998–2007

### Biennial Totals: \$ in Millions

Note: In the following tables, the number labeled “Largest Ten as a Percentage of Total” may be misleading because it reflects only new funds added to budget without also showing funds reduced elsewhere that offset additions. These offsets vary from year to year.

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#### Ten Largest Increases in 2006-2008 Budget made by 2007 General Assembly

Source: Analysis of “Summary of 2006-2008 Budget Actions,” prepared jointly by the staffs of the House Appropriations Committee and Senate Finance Committee

Rank	Agency	Program	GF
1.	VDOT	Transportation Initiative	\$161.0
2.	Capital Outlay	Project Cost Overruns and Supplements	123.1
3.	DMAS	Virginia Health Care Fund Shortfall	58.2
4.	DOE	3% Salary Increase for SOQ Positions	41.9
5.	Capital Outlay	Equipment for Previously-Approved Projects	38.5
6.	Non-State Agencies	Grants	26.7
7.	DEQ	Water Quality Improvement Fund-Point Source	21.6
8.	Capital Outlay	Project Planning	20.1
9.	DSS	Costs to Comply with Federal TANF Requirements	19.9
10.	Central Appropriations	Second Year Salary Increase: Additional 1%	16.9
	Sub-total, Largest Ten		\$527.9
	Total of All General Fund adjustments, 2007 Session		\$929.0
	Largest Ten as a Percentage of Total		57%

**Ten Largest Increases in 2006-2008 Budget made by 2006 General Assembly**

Source: Analysis of "Summary of 2006-2008 Budget Actions," November 30, 2006, prepared jointly by the staffs of the House Appropriations Committee and Senate Finance Committee

Rank	Agency	Program	GF (biennial)
1.	DOE	Re-benchmarking SOQ & technical updates	\$941.9
2.	DMAS	Medicaid utilization & inflation	483.5
3.	Capital outlay (various agencies)	New construction	437.1
4.	VDOT	Transportation initiatives	567.9
5.	General government	State & local employees salary & benefits increase	389.9
6.	DOE	Teacher & support staff salary & benefits increase	244.8
7.	Colleges & universities	Enrollment growth, base adequacy	237.3
8.	DEQ	Wastewater treatment improvements	216.6
9.	General government	Rainy day fund deposit	138.3
10.	DOC	Operating costs of new prisons & related	130.8
	Sub-total, Largest Ten		\$3,788.1
	Total of All General Fund Adjustments, 2007 Session		\$4,853.5
	Largest Ten as a Percentage of Total		78%

**Ten Largest Increases in 2004-2006 Budget made by 2006 General Assembly**

Source: Analysis of Budget Bill as Introduced (HB 5002) with Conference Report

Rank	Agency	Program	GF
1.	DOA	Revenue Stabilization (Rainy Day) Fund Deposit	\$402.2
2.	DEQ	Water Quality Improvement Fund	56.6
3.	DMAS	Tobacco tax shortfall	9.0
4.	Various	Energy and utility costs	8.2
5.	CSA	Special Education	7.5
6.	DMHMRSAS	Pharmaceutical costs/Medicare Part D Program	5.7
7.	DSP	70 State Trooper positions	5.4
8.	Supreme Court	Criminal Fund	5.1
9.	DGS	Property and casualty insurance	4.7
10.	DOE	SOQ adjustments (ADM/sales tax/technical)	4.7
	Sub-total, Largest Ten		\$509.1
	Total of All General Fund adjustments, 2006 Session		\$508.1
	Largest Ten as a Percentage of Total		100%*

**Ten Largest Increases in 2004-2006 Budget made by 2005 General Assembly**

Source: Money Committee Summary of 4/29/05

Rank	Agency	Program	GF
1.	VDOT	Transportation Initiatives	\$347.6
2.	DOA	Revenue Stabilization (Rainy Day) Fund Deposit	229.4
3.	DMAS	Medicaid Utilization, Inflation, and Initiatives	212.2
4.	Various	Capital Outlay and Building Maintenance	63.9
5.	Various	Employee Salary Increases (State & local)	131.7
6.	DEQ, DCR	Water Quality Improvements	86.4
7.	DOE	Increased Lottery & Sales Tax Revenue; Other Actions	68.8
8.	Various	Non-State Agencies	34.1
9.	DHCD, VTA	Economic Development, Workforce Consortia	27.3
10.	DMHMRSAS	Community Crisis, Aftercare, Early Intervention, Other Actions	20.1
Sub-total, Largest Ten			\$1,321.5
Total of All General Fund adjustments, 2004 Session			\$1,512.5
Largest Ten as a Percentage of Total			87%

**Ten Largest Increases in 2004-2006 Budget made by 2004 General Assembly**

Source: Money Committee Summary of 9/22/04

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, Largest Ten			\$2,042.1
Total of All General Fund adjustments, 2004 Session			\$2,561.0
Ten Largest as a Percentage of Total			80%

**Ten Largest Increases in 2002-2004 Budget made by 2003 General Assembly**

Source: 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, Largest Ten			\$517.2
Total of All General Fund Adjustments, 2003 Session			\$717.9
Ten Largest as a Percentage of Total			72%

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

Source: Money Committee Summary of 4/25/02

Rank	Agency	Program	GF
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	Fund Mandated Foster Care and Special Education Services	137.7
5.	Central Accounts	FY2004 Compensation Reserve for all State and State Supported Local Employees	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, Ten Largest			\$1,716.5
Total of All General Fund Adjustments, 2000 Session			\$2,213.0
Ten Largest as a Percentage of Total			78%

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

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

Source: Money Committee Summary of 3/22/00

Rank	Agency	Program	GF
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, Ten Largest			\$2,562.8
Total of All General Fund Adjustments, 2000 Session			\$3,672.8
Ten Largest as a Percentage of Total			70%

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

Source: Money Committee Summary of 3/8/99

Rank	Agency	Program	GF
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 2K Compliance	34.8
10.	Central Accounts	Replace Special Funds for Capital	19.9
Sub-Total, Ten Largest			\$748.7
Total of All General Fund Adjustments, 1999 Session			\$1,215.1
Ten Largest as a Percentage of Total			62%

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

Source: 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 yr	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, Ten Largest			\$1,696.7
Total of All General Fund Appropriation Adjustments, 1998 Session			\$3,007.0
Ten Largest as a Percentage of Total			56%

# Appendix E

## State Expenditures by Governmental Function \$ in Millions, Unadjusted for Inflation

Fiscal Year	Education	Adminis- tration of Justice	Individual and Family Services	Resource and Eco- nomic De- velopment	Trans- portation	General Government	Enterprises	Capital Projects	Total Ex- penditures
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
2005	9,327	2,170	9,288	734	3,366	3,003	1,689	890	30,467
2006	10,144	2,338	9,904	844	3,454	3,008	1,853	1,179	32,724
2007	11,318	2,401	10,175	818	3,424	3,564	1,839	1,294	34,833

Note: Expenditures are on a budgetary or cash basis. Includes all operating and capital spending as well as expenditure of bond proceeds.

Source: Comprehensive Annual Financial Reports; Department of Accounts' correspondence for FY 2002–FY 2007 data.



Appendix  
**F**

# Final Legislative Operating Appropriations by Fund

## \$ 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
2005	29,258	13,782	1,430	4,014	3,213	650	1,085	164	585	4,333	15,476
2006	31,991	15,111	1,402	4,387	3,978	700	1,110	170	614	4,519	16,881
2007	35,095	17,033	1,603	4,853	3,929	850	1,083	234	638	4,872	18,062

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



Appendix  
**G**

# Final Legislative Operating Appropriations by Secretarial Area \$ in Millions, Unadjusted for Inflation

FY	Admin. & Finance	Admin-istration	Agriculture	Commerce & Resources	Econ. Dev./Commerce & Trade	Education	Finance	Health & Human Resources	Natural Resources	Tech-nology	Transporta-tion & Pub-lic 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
2005		786	\$0.1		866	11,205	631	7,984	312	45		2,042	3,697
2006		779	0.1		864	12,054	1,106	8,409	445	44		2,149	4,408
2007		853	87		847	13,658	662	9,009	543	66		2,425	4,918

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 independent of the executive branch and thus are not shown. The independent agencies, central accounts, and the Executive Offices also are not under Secretaries and thus are not shown. The revenue stabilization fund is budgeted under the Finance secretariat. The personal property tax relief program is not budgeted under a Secretary (although it is administered through Finance) but under "central appropriations," and thus is not included. 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.



Appendix **H**

# Major Uses of Non-General Funds, FY 2007

This table identifies, for each class of non-general funds, the five largest (by dollar amount) budget programs that receive appropriations from the fund. The table also indicates the sum of the five largest program appropriations for each fund class, and the percentage that sum represents of the respective non-general funds.

<b>Fund/Agency</b>	<b>Programmatic Purpose</b>	<b>\$ in Millions</b>
<b>Dedicated Special Revenue Funds</b>		
DMAS	Medical Program Services: Reimbursements to State-Owned Mental Health Facilities	\$288.1
Virginia Department of Health	State Health Services (local health departments)	56.8
Virginia Information Technology Agency	Financial Assistance for Emergency Communications Systems	47.4
Department of Game & Inland Fisheries	Wildlife & Fisheries Management, including Law Enforcement	28.0
Department of Health Professions	Regulation of Professions & Occupations	22.8
<i>Total, Top 5</i>		<i>\$443.1</i>
<i>Top 5 as Percentage of This Non-General Fund</i>		<i>69%</i>
<b>Debt Service Funds</b>		
VDOT	Commonwealth Toll Facilities	\$82.3
University of Virginia Academic Division	Higher Education Auxiliary Enterprises	30.2
University of Virginia Medical Center	State Health Services	17.6
Virginia Commonwealth University	Higher Education Auxiliary Enterprises	12.7
James Madison University	Higher Education Auxiliary Enterprises	11.3
<i>Total, Top 5</i>		<i>\$151.1</i>
<i>Top 5 as Percentage of This Non-General Fund</i>		<i>64%</i>
<b>Trust &amp; Agency Funds</b>		
Virginia Employment Commission	Workforce Systems Services (Unemployment Benefits, Job Placement Services, etc.)	\$556.1
Direct Aid to Education	State Education Assistance Programs (SOQ, School Construction Grants)	178.7
VDOT	Non-Toll Supported Debt Service (FRANS, Transportation Improvement District debt)	47.5
Central Appropriations	Distribution of Tobacco Settlement	39.8
Department of Motor Vehicles	Financial Assistance to Localities (Revenue from Taxes on Vehicle Rentals, Mobile Homes, Rolling Stock, etc.)	32.0
<i>Total, Top 5</i>		<i>\$854.2</i>
<i>Top 5 as Percentage of This Non-General Fund</i>		<i>79%</i>

<b>Fund/Agency</b>	<b>Programmatic Purpose</b>	<b>\$ in Millions</b>
<b>Enterprise Funds</b>		
Department of Alcoholic Beverage Control	ABC Merchandising	\$460.6
Department of Human Resource Management-Administration of Health Insurance	Personnel Management Services (Health Benefits Administration)	165.0
Virginia College Savings Plan	Investment Services	85.5
State Lottery Department	Lottery Operations	78.0
Department for the Blind & Vision Impaired	Rehabilitative Industries Operations	20.7
<i>Total, Top 5</i>		<i>\$809.7</i>
<i>Top 5 as Percentage of This Non-General Fund</i>		<i>95%</i>
<b>Higher Education Operating Funds</b>		
University of Virginia Medical Center	State Health Services	\$903.3
University of Virginia Academic Division	Educational & General Programs (Instruction, Research Public Services, Student Services, etc.)	281.8
Virginia Community College System	Educational & General Programs (Instruction, Research Public Services, Student Services, etc.)	272.8
Virginia Tech	Educational & General Programs (Instruction, Research Public Services, Student Services, etc.)	247.6
University of Virginia Academic Division	Financial Assistance for Educational & General Programs	240.9
<i>Total, Top 5</i>		<i>\$1,946.5</i>
<i>Top 5 as Percentage of This Non-General Fund</i>		<i>40%</i>
<b>Federal Funds</b>		
Department of Medical Assistance Services	Medicaid Services	\$2,438.0
Department of Education: Direct Aid to Education	Federal Education Assistance	734.1
Department of Social Services	Financial Assistance for Local Social Services Staff (Eligibility Determination, Social Work Services)	243.9
Department of Social Services	Financial Assistance for Self-Sufficiency Programs (TANF, etc.)	216.2
Department of Social Services	Child Welfare Services (Foster Care, Protective Services, etc.)	70.8
<i>Total, Top 5</i>		<i>\$3,703.1</i>
<i>Top 5 as Percentage of This Non-General Fund</i>		<i>76%</i>

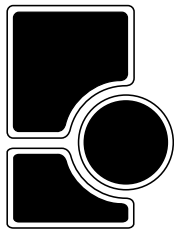
<b>Fund/Agency</b>	<b>Programmatic Purpose</b>	<b>\$ in Millions</b>
<b>Commonwealth Transportation (Highway Maintenance &amp; Construction) Funds</b>		
VDOT	Highway System Maintenance & Operations	\$1,009.1
VDOT	Highway System Acquisition & Construction	1,201.8
VDOT	Financial Assistance to Localities for Ground Transportation	285.5
VDOT	Administration & Support Services	180.9
Department of Rail & Public Transportation	Financial Assistance for Public Transportation	123.4
<i>Total, Top 5</i>		<b>\$2,949.5</b>
<i>Top 5 as Percentage of This Non-General Fund</i>		<b>75%</b>
<b>Special Funds</b>		
Department of Social Services	Child Support Enforcement	\$600.8
DMHMRSAS	Mental Retardation Training Center Services	132.5
Department of Rail & Public Transportation	Public Transportation System Acquisition & Construction (Dulles Corridor Metrorail Project)	65.2
DMHMRSAS	Mental Retardation Training Center Facility Administration & Support Services	63.5
Department of Corrections	Operation of Secure Facilities	55.1
<i>Total, Top 5</i>		<b>\$917.1</b>
<i>Top 5 as Percentage of This Non-General Fund</i>		<b>57%</b>

Note:

Source: Chapter 847 data from Department of Planning & Budget; Department of Accounts.







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