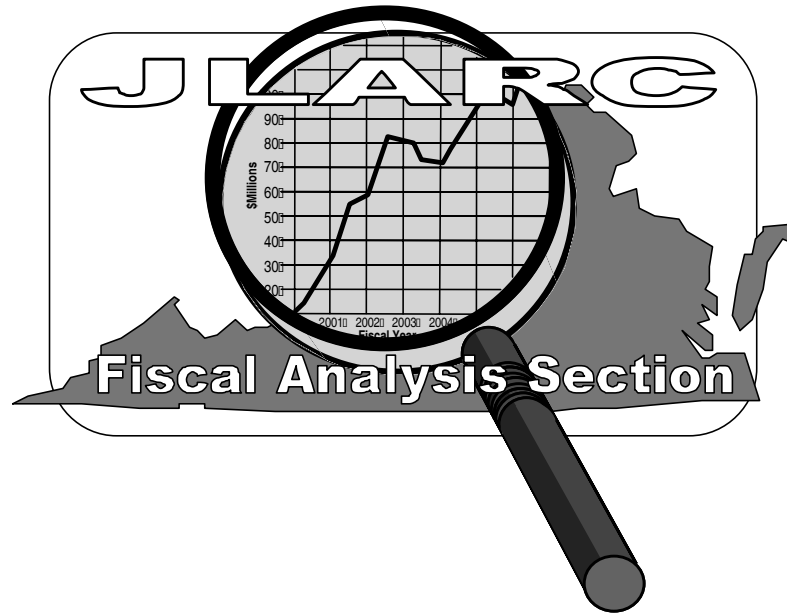


**Joint Legislative Audit and Review Commission  
of the Virginia General Assembly**



**Review of Spending  
in State Government**

**Staff Briefing  
Walt Smiley  
September 8, 2003**

# Introduction

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## Fiscal Analysis Staff:

**Kirk Jonas, Deputy Director**

**Walt Smiley, Fiscal Section Manager**

**Kimberly Sarte**

# Presentation Outline

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- Background of Growth in Virginia**
- How Much Has the State Budget Grown?**
- Where Did the Money Go?**
- What Drove Budget Growth?**

# Study Mandate

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- ***Code of Virginia* §30-58.3 directs JLARC annually to review State spending and identify:**
  - The largest and fastest growing programs,
  - The causes of expenditure growth,
  - Programs that may be indistinct or inefficient, and
  - Programs that could be consolidated.
  
- **Prior reports (December 2001 and June 2002) focused on spending trends:**
  - State spending trends, and spending growth within agencies,
  - General fund revenue forecasting process,
  - Development and use of performance measures, and
  - How Virginia compared to the other states.

# Explaining Budget Growth

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- **A combination of methods helps explain long-term budget growth:**
  - **Analyzing societal factors such as population growth, inflation, growth in personal income, etc.**
  - **Identifying budget drivers – the agencies and programs that account for the bulk of spending growth**
  - **Recapping Virginia-specific factors, such as initiatives and funding decisions**
  - **Examining how individual agency budgets have grown**

# Changing Societal Factors

1981 – 2002

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<u>Growth</u>	<u>US</u>	<u>Virginia</u>	<u>State Rank</u>
<b>Population<sup>1</sup></b>	<b>24%</b>	<b>34%</b>	<b>12<sup>th</sup></b>
Under 18 <sup>2</sup>	13%	15%	
Over 85 <sup>2</sup>	89%	112%	
<b>Inflation (CPI-U)</b>	<b>98%</b>	<b>98%</b>	<b>--</b>
<b>Gross State Product<sup>3</sup></b>	<b>71%</b>	<b>103%</b>	<b>13<sup>th</sup></b>
<b>Per Capita</b>			
<b>Personal Income<sup>4</sup></b>	<b>38%</b>	<b>47%</b>	<b>8<sup>th</sup></b>

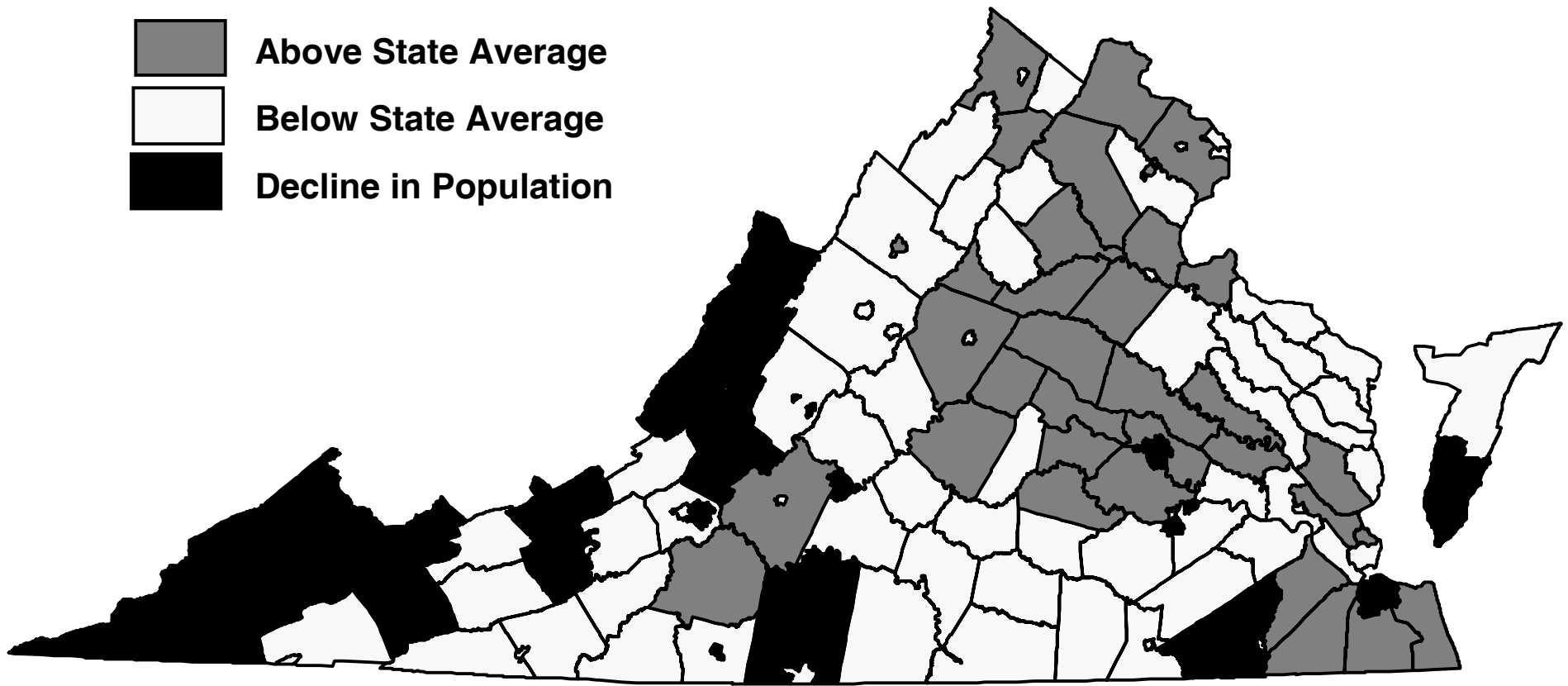
<sup>1</sup>Growth 1980-2001; US Census Bureau

<sup>2</sup>Growth 1980-2000; US Census Bureau

<sup>3</sup>Through 2001; Inflation-adjusted in 2001 dollars; US Bureau of Economic Analysis

<sup>4</sup>Through 2002; Inflation-adjusted in 2002 dollars; US Bureau of Economic Analysis

# Population Growth in Virginia 1980-2000



# Population Changes

## 2000-2002

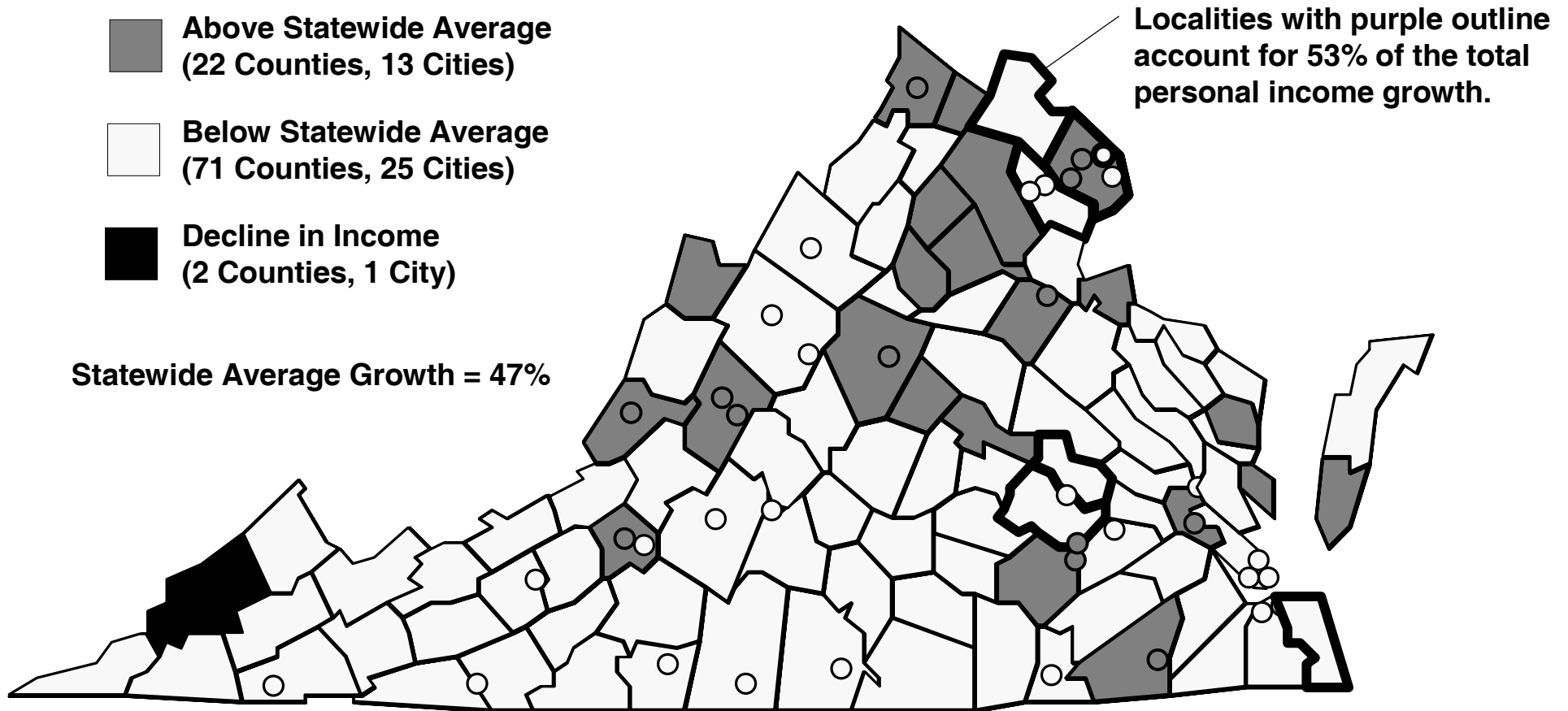
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- **Population shifts are affecting more localities, according to Census Bureau estimates**
- **1980-2000: 16 counties & 13 cities lost population**
- **2000-2002: 20 counties & 15 cities lost population**
- **Turnarounds**
  - **Formerly growing, now declining:**
    - **Cities of Williamsburg, Galax, Franklin, Charlottesville; Counties of Sussex, Brunswick, Mecklenburg, Halifax, Cumberland, Grayson, Lancaster**
  - **Formerly declining, now gaining:**
    - **Cities of Norfolk, Hopewell; County of Wise**

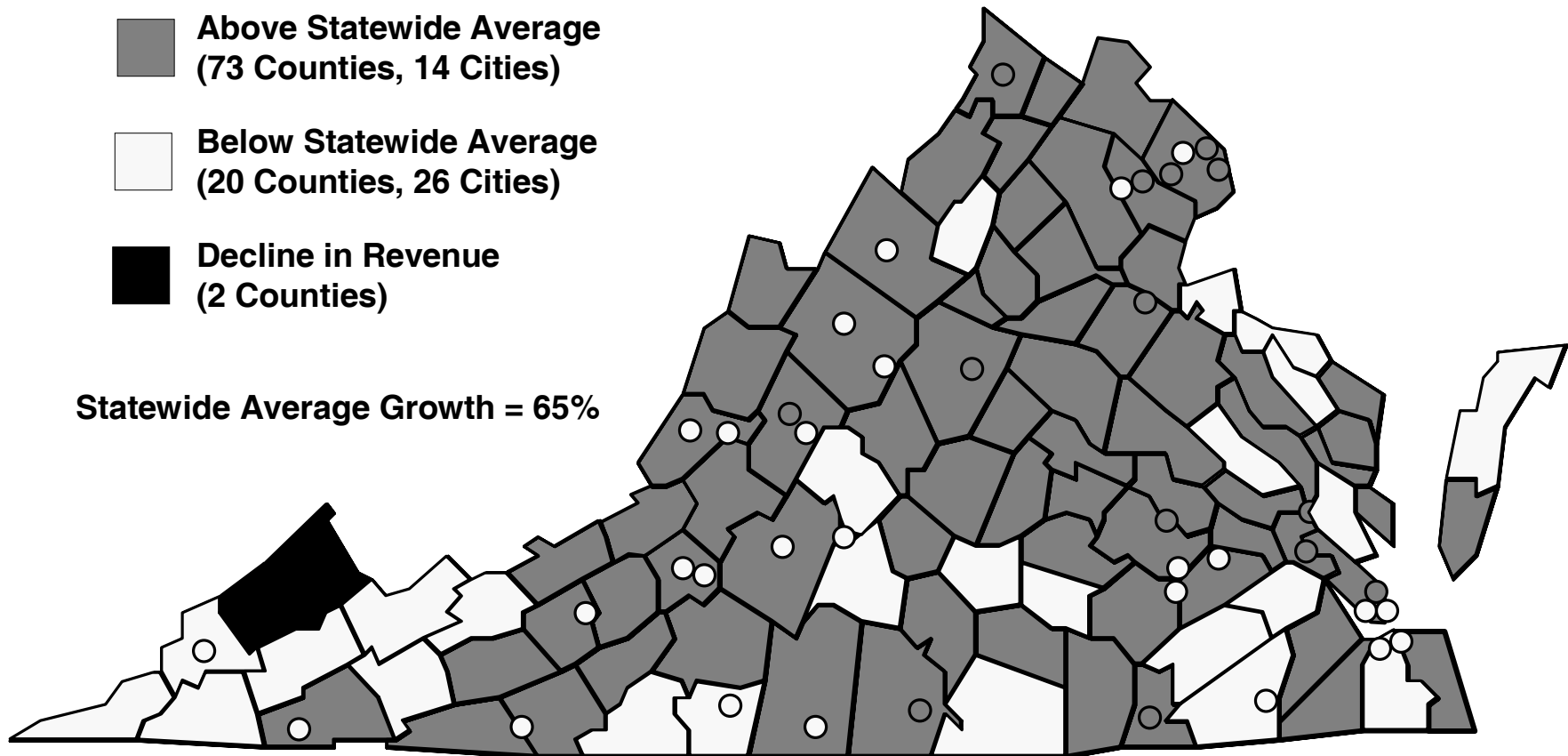
# Growth in Per-Capita Inflation-Adjusted Personal Income, by Locality

## 1981-2001



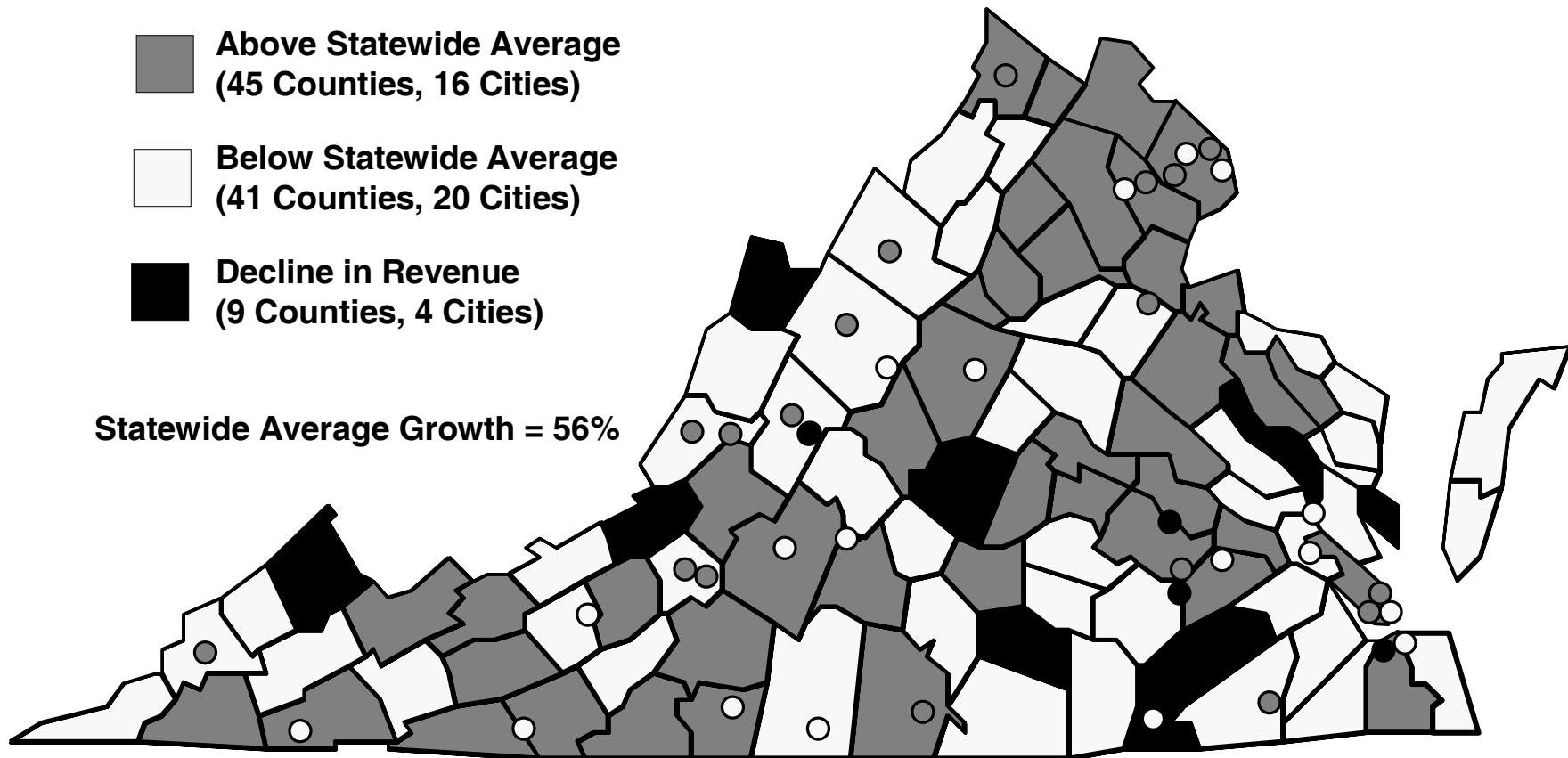
# Growth in Per-Capita Inflation-Adjusted Income Tax Revenue, by Locality

1980-2000



# Growth in Per-Capita Inflation-Adjusted Sales Tax Revenue, by Locality

1982-2002



# Presentation Outline

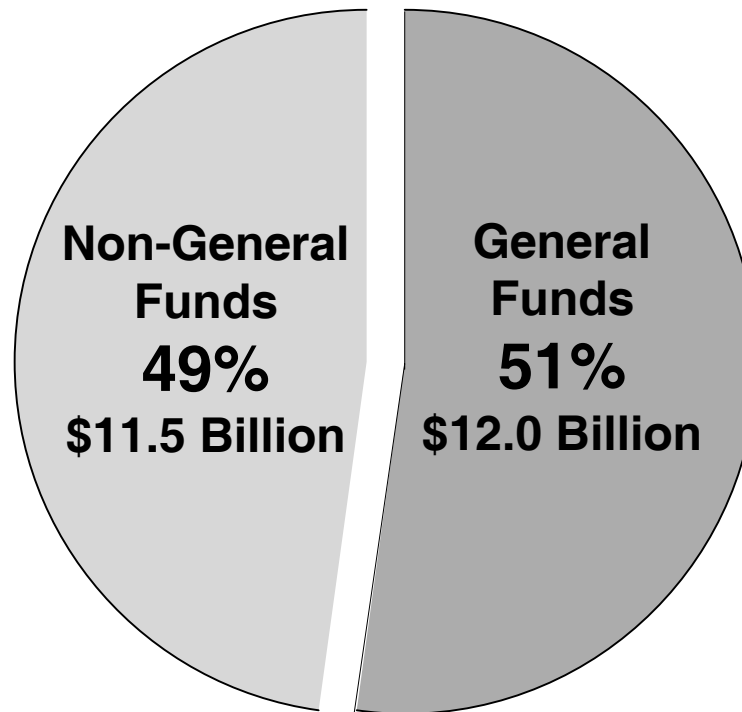
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- Background of Growth in Virginia
- How Much Has the State Budget Grown?
- Where Did the Money Go?
- What Drove Budget Growth?

# FY 2002 Appropriations, by Fund

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**Total: \$23.5 Billion**

# Examples of Revenues Appropriated Through the State Budget Process

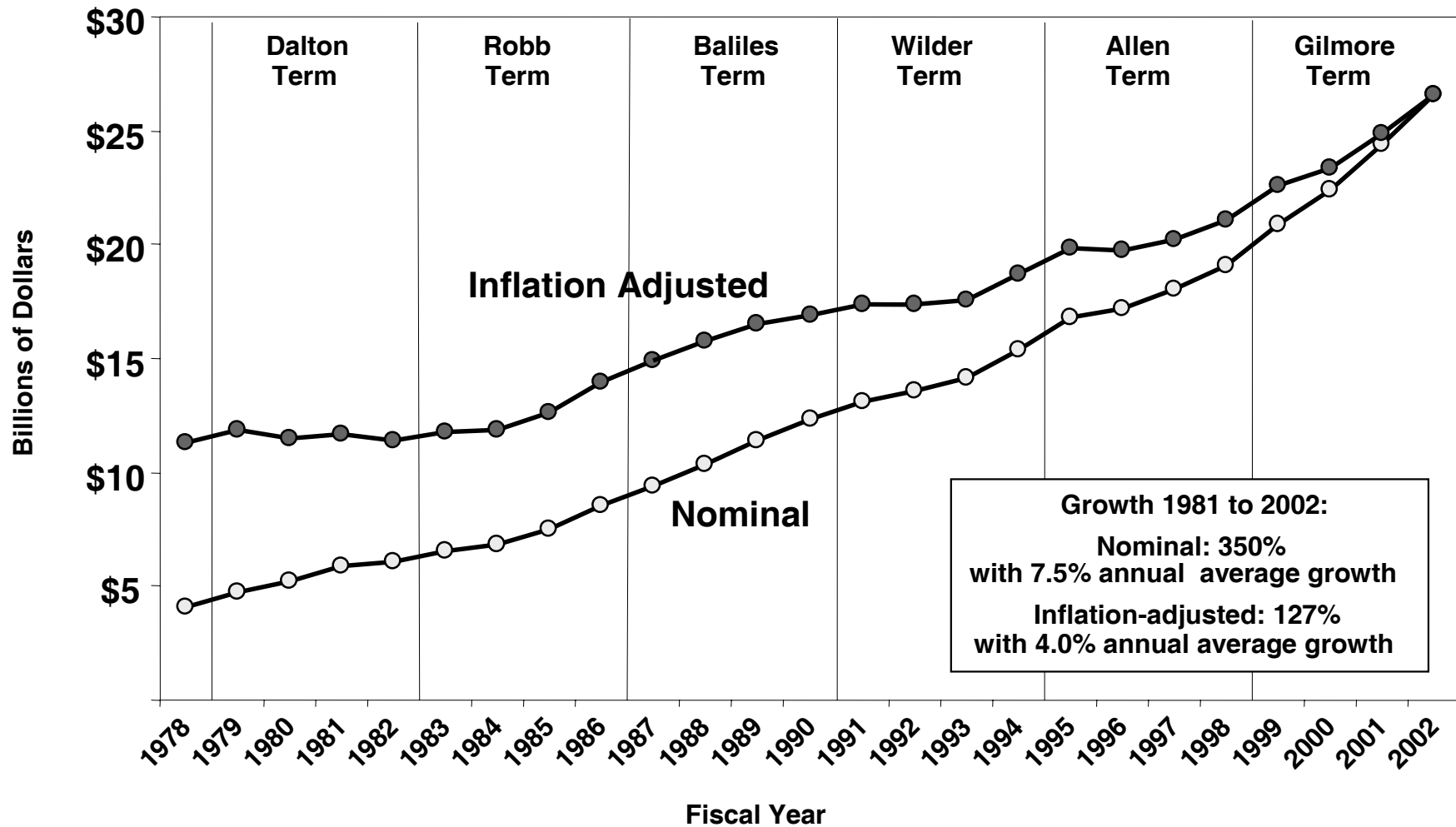
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- Revenues from income, sales, motor vehicle and other taxes and fees
- Federal funds
- Tuition payments
- Court-ordered fines, fees, forfeitures
- ABC and Lottery ticket sales
- Child support payments from non-custodial parents
- Hunting and fishing license fees
- Fees for professional registration and licensing
- Proceeds from the sale of surplus property
- Payments by State employees for health insurance, benefits

# Virginia Expenditures

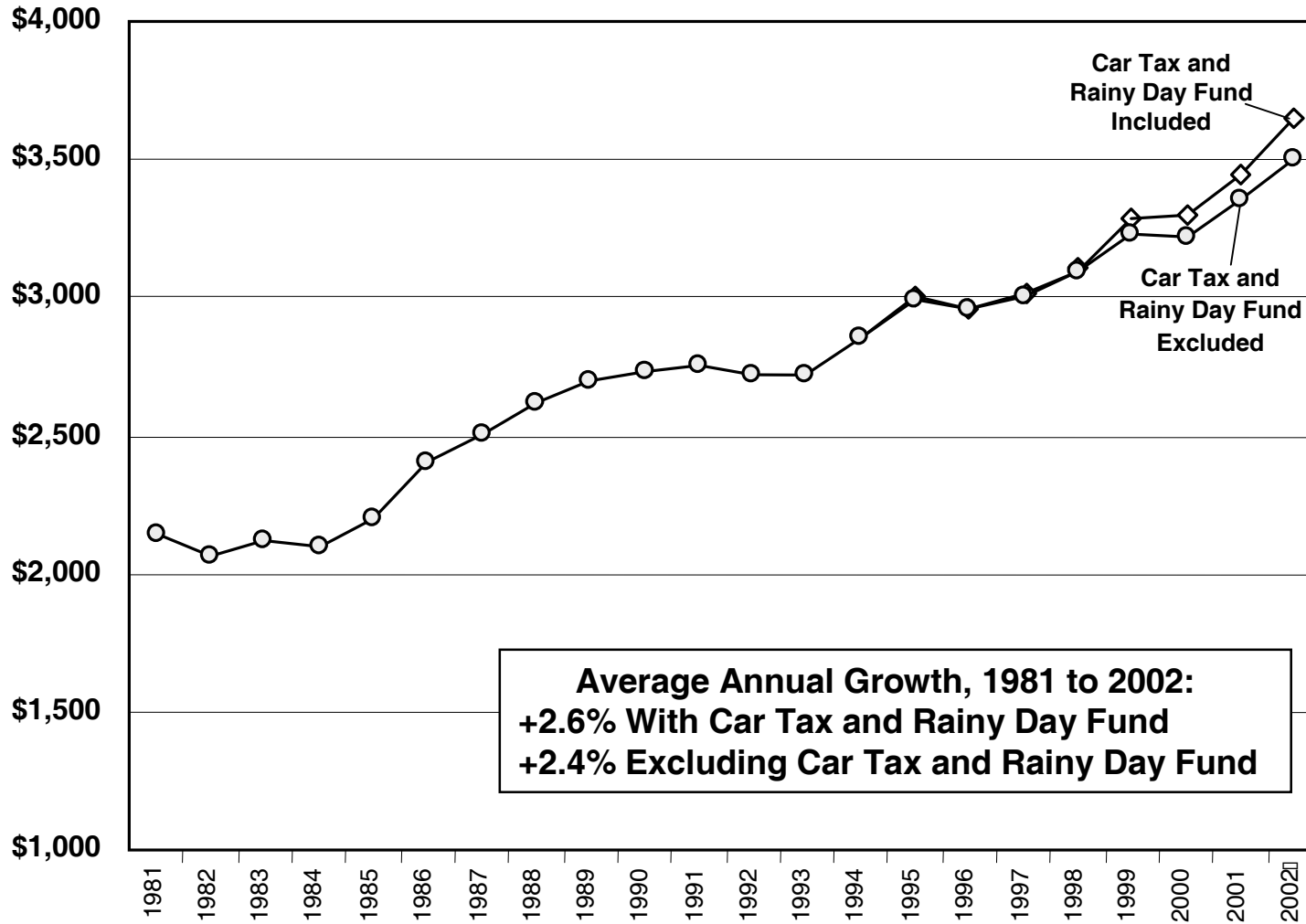
FY 1978 – FY 2002, Budgetary Basis



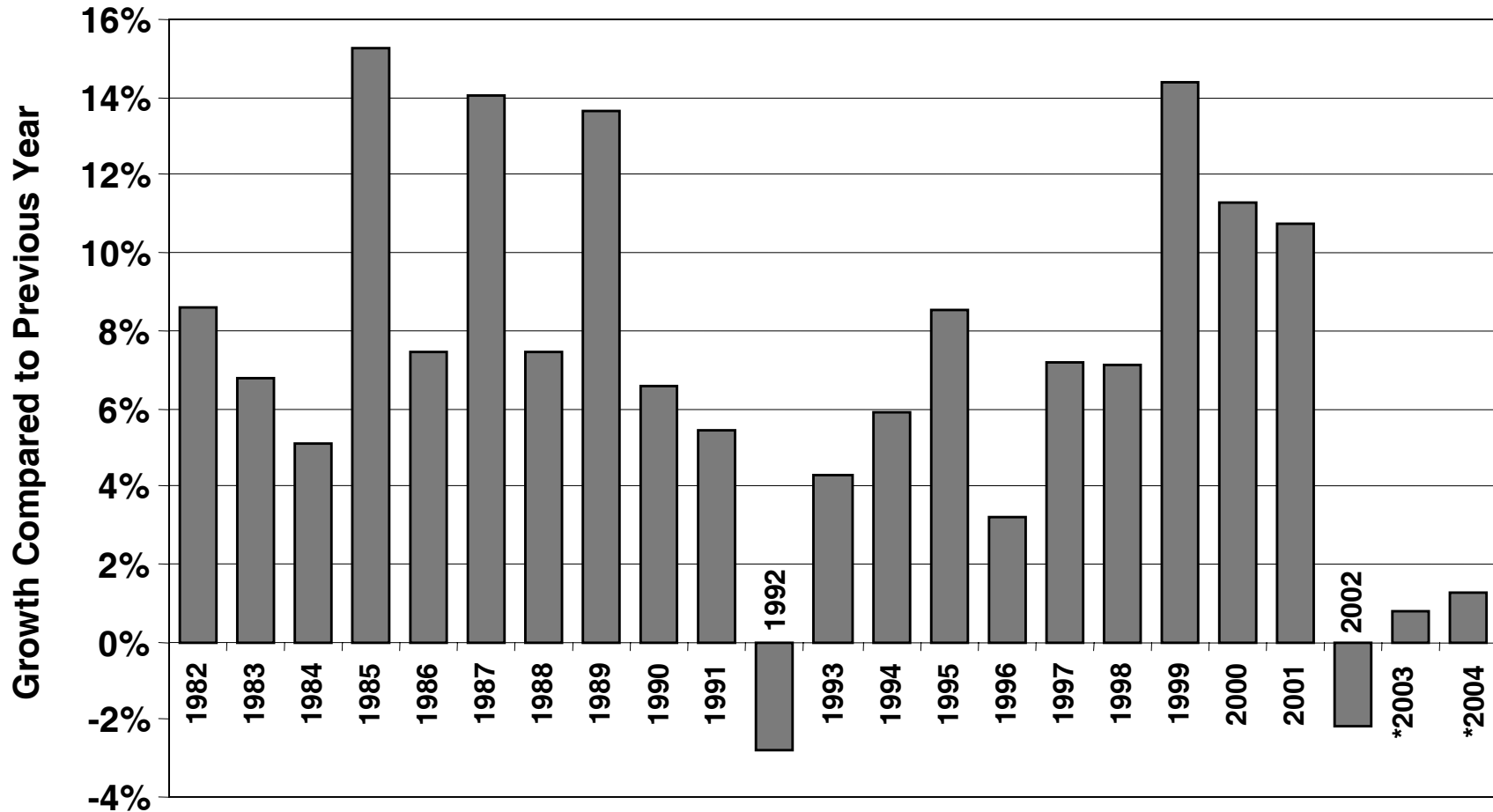
# Virginia Spending Per Capita

FY 1981 – FY 2002

Adjusted for Inflation, and Showing  
Impact of Car Tax and Rainy Day Fund



# General Fund Appropriations Growth Has Seen Booms and Busts

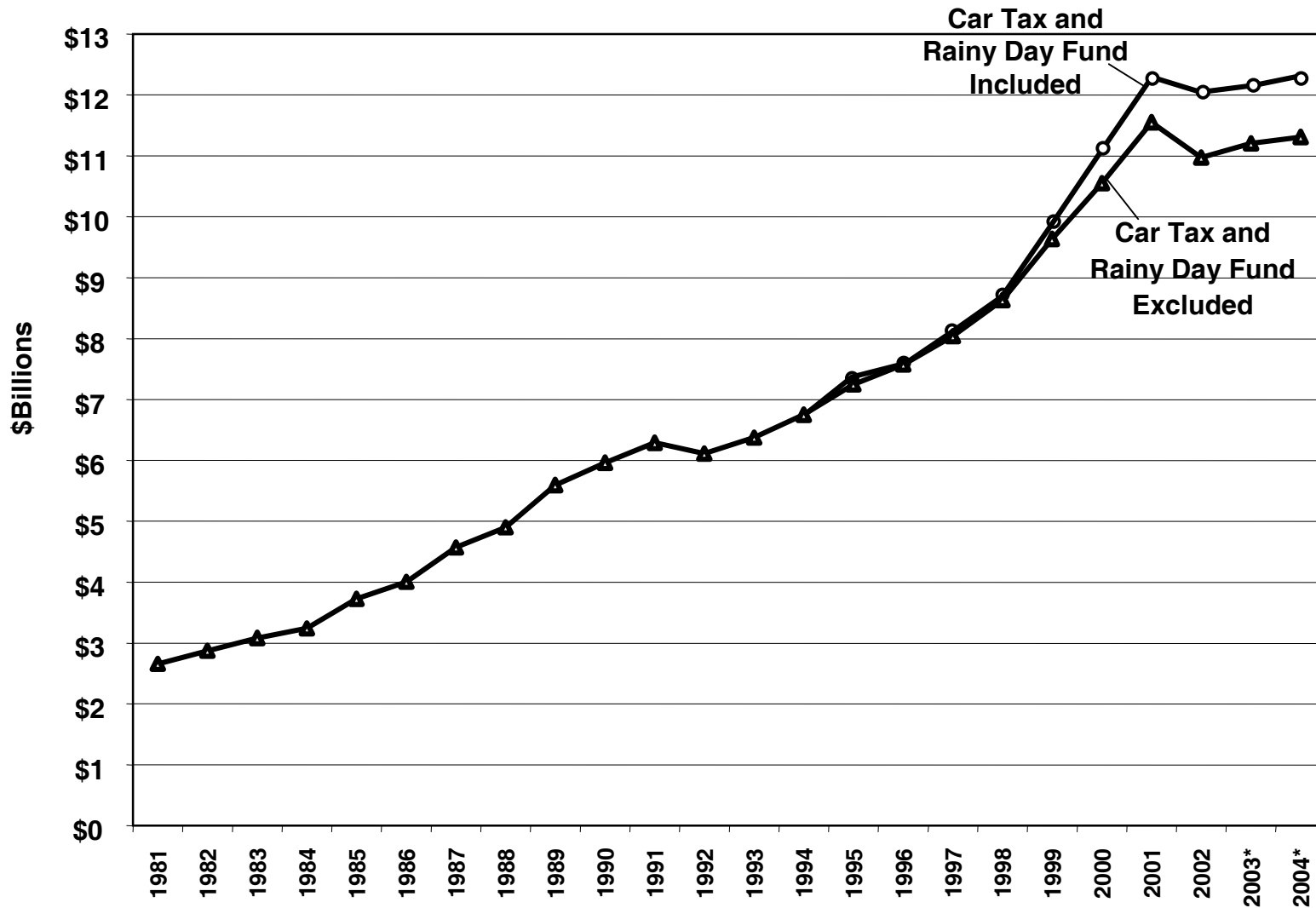


\*Official forecast

# General Fund Appropriations

## Minus Car Tax and Rainy Day Fund

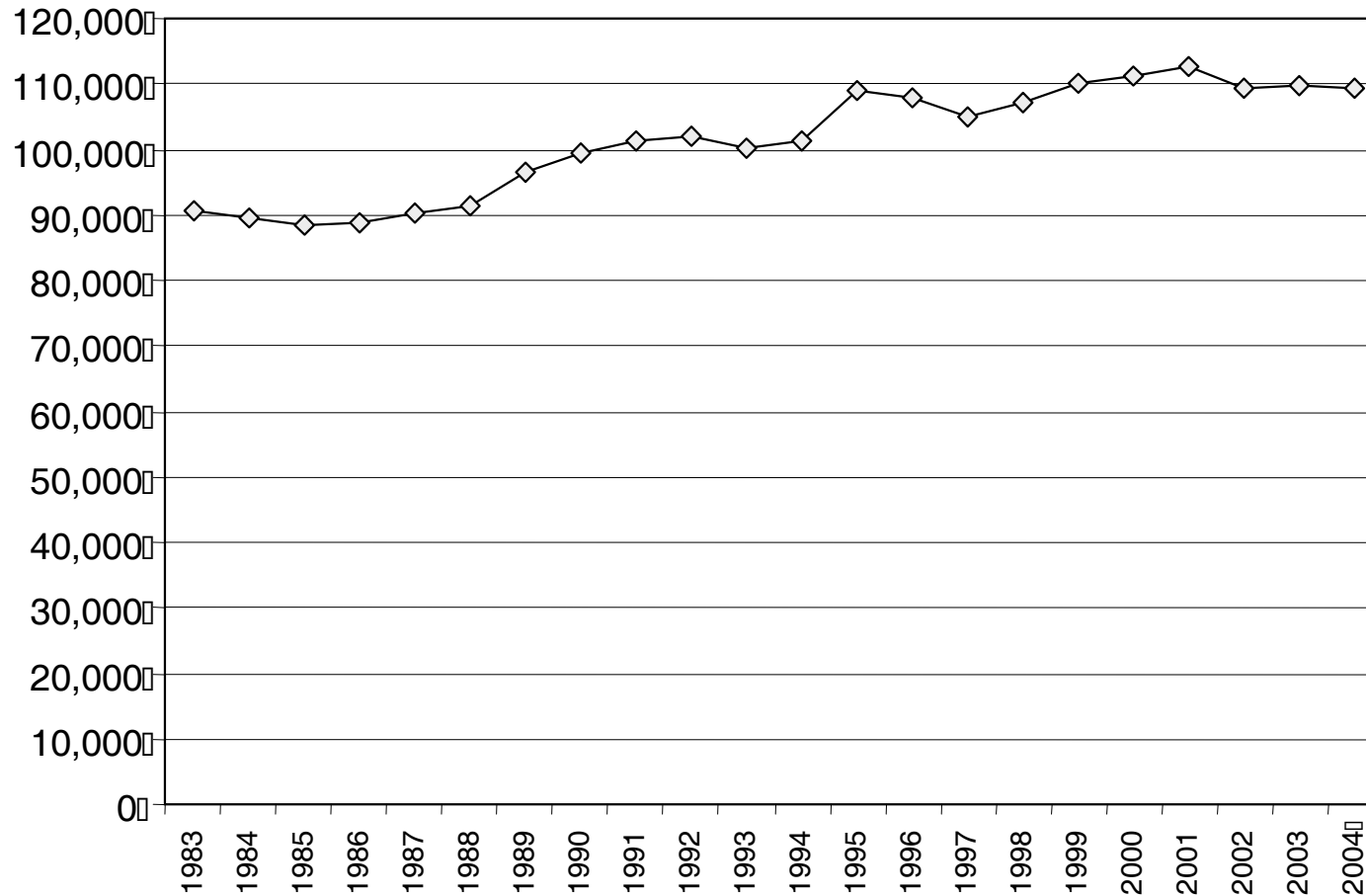
### FY 1981-2004



# State Employment Grew Slowly

(Maximum Employment Level/Position Level)

Growth FY 1983 – FY 2004 = 21%  
Average annual growth = 1%



# Presentation Outline

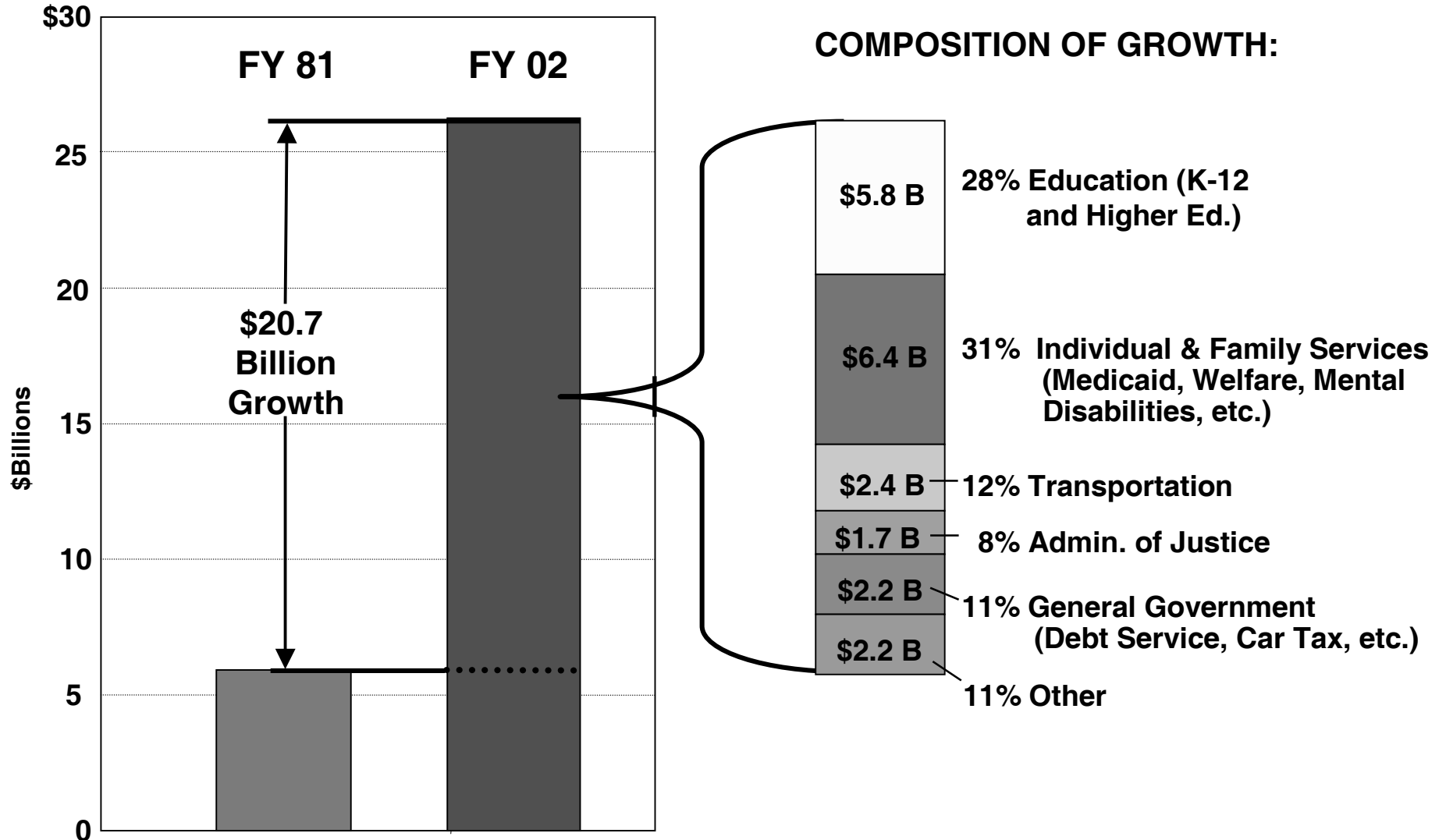
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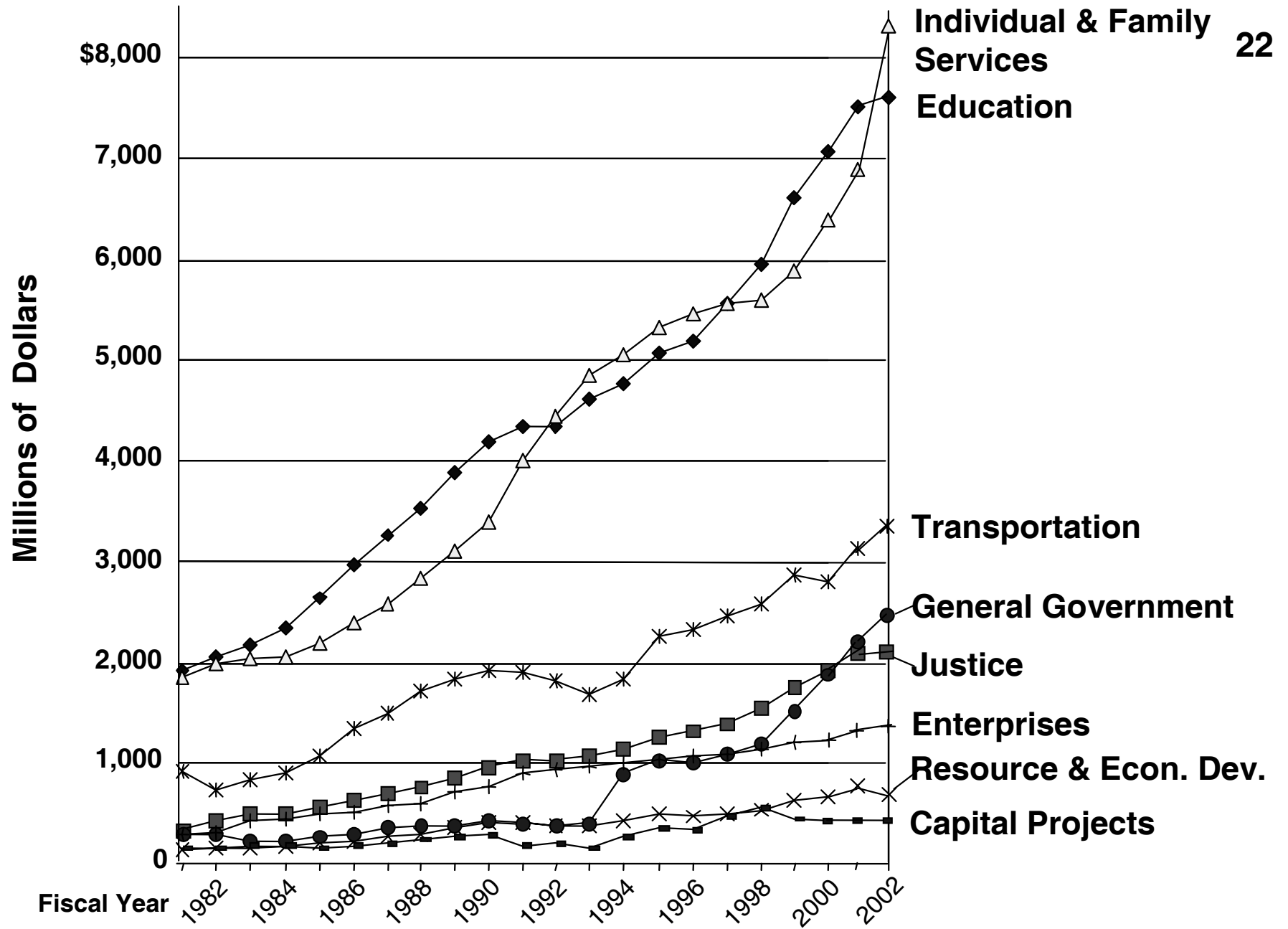
- Background of Growth in Virginia
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# Composition of State Spending Growth FY 1981 - FY 2002

(Total Expenditures on Budgetary Basis)

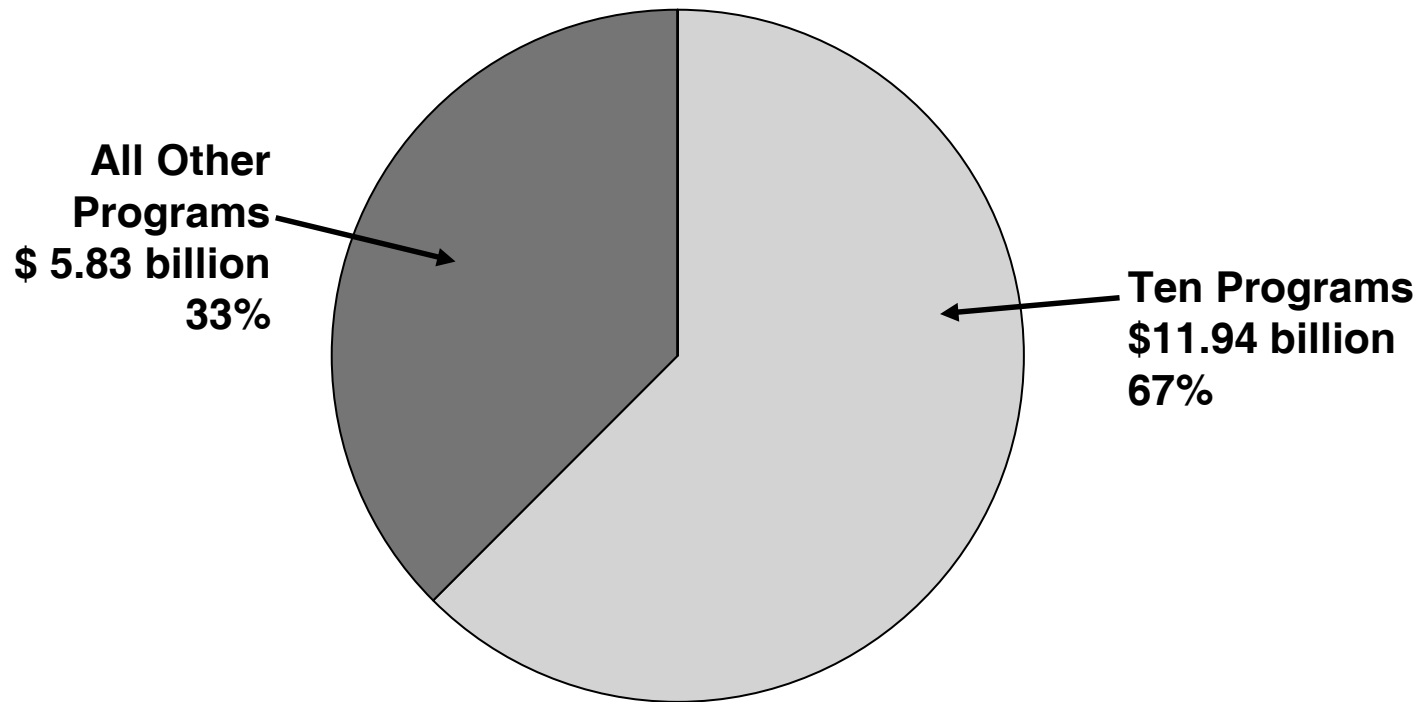


# Expenditures by Functional Area, FY 1981-FY 2002



# Much of the Overall Budgetary Growth Was in a Few Core Programs

Appropriation Growth FY 1981 – FY 2002 (All Funds)



Total (100%) Growth = \$17.77 billion

# Much of the Budgetary Growth Was in a Few Core Programs

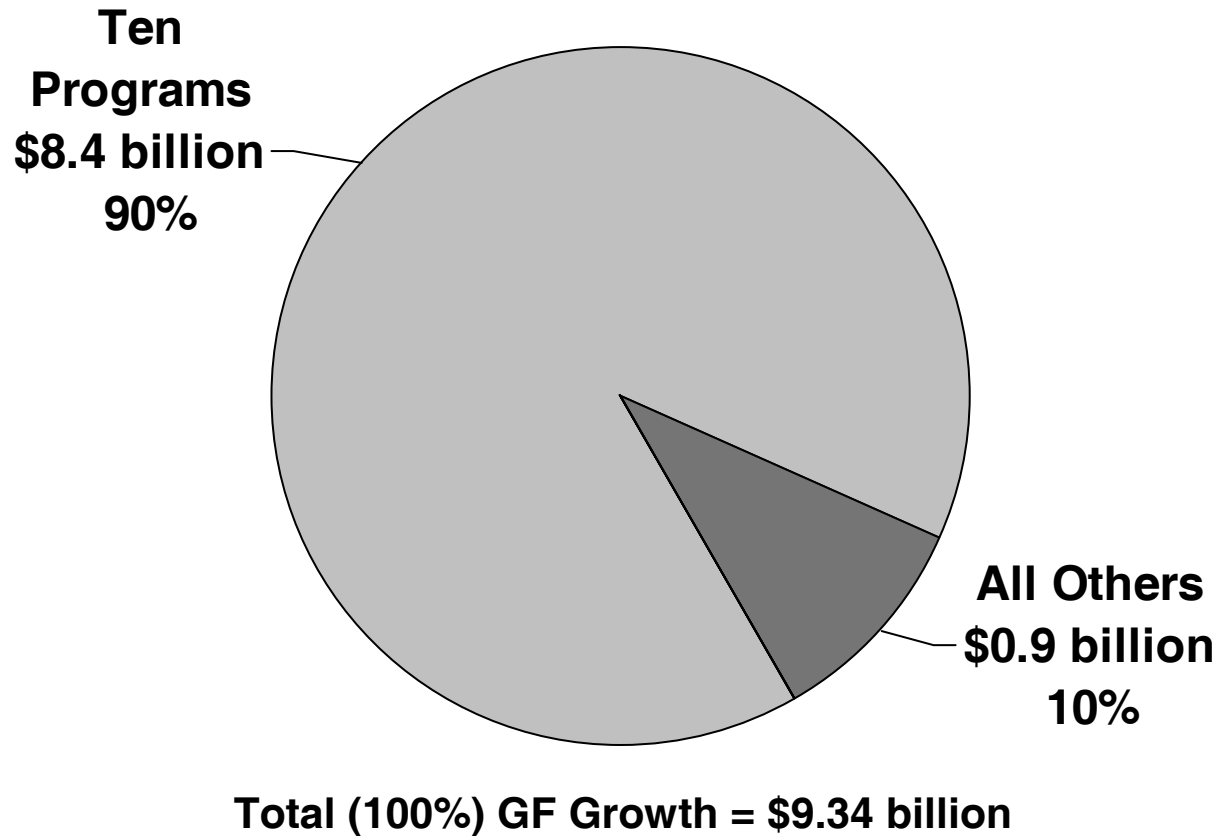
Growth FY 1981 – FY 2002 (All funds, in millions)

	<u>Growth</u>	<u>Percentage of Total Growth</u>
<b>Direct Aid to Public Education</b>	<b>\$3,323</b>	<b>19%</b>
<b>Medicaid</b>	<b>\$2,680</b>	<b>15%</b>
<b>Higher Education (All Institutions)</b>	<b>\$1,746</b>	<b>10%</b>
<b>Personal Property Tax Relief</b>	<b>\$ 809</b>	<b>5%</b>
<b>Highway System Acquisition and Construction</b>	<b>\$ 793</b>	<b>4%</b>
<b>Highway System Maintenance</b>	<b>\$ 626</b>	<b>4%</b>
<b>State Health Services</b>	<b>\$ 581</b>	<b>3%</b>
<b>Child Support Enforcement Services</b>	<b>\$ 491</b>	<b>3%</b>
<b>Crime Detection, Apprehension</b>	<b>\$ 457</b>	<b>3%</b>
<b>Secure Confinement</b>	<b><u>\$ 429</u></b>	<b><u>2%</u></b>
<b>Total</b>	<b>\$11,935</b>	<b>67%</b>

# Most General Fund Appropriation Growth Focused on a Few Core Activities

General Fund Growth FY 1981 – FY 2002

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# Most General Fund Appropriation Growth Focused on a Few Core Activities

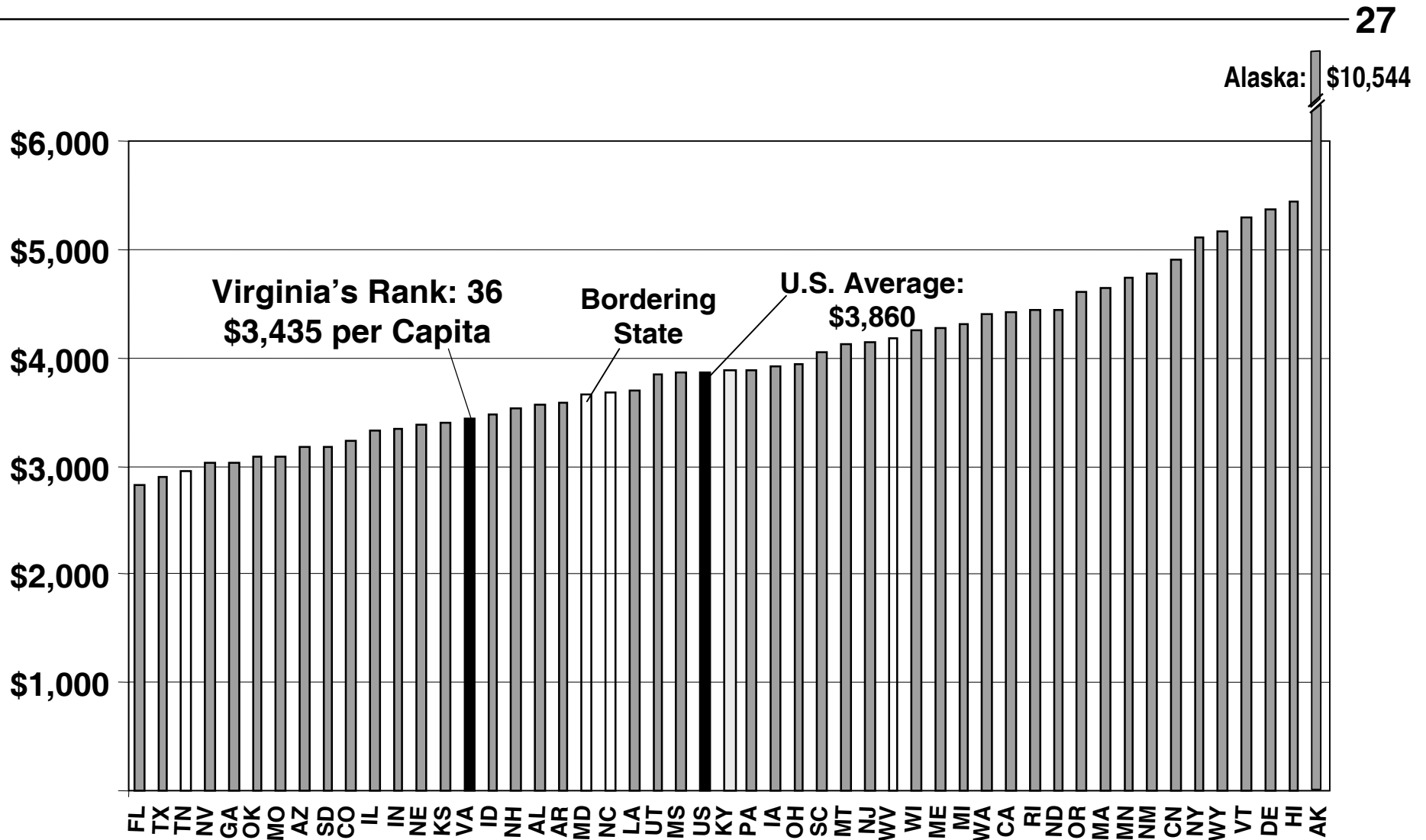
Growth FY 1981 – FY 2002 (General fund, in millions)

	<u>Growth</u>	<u>Percentage of Total GF Growth</u>
Direct Aid to Public Education	\$2,941	31%
Medicaid	\$1,381	14%
Higher Education (All Institutions)	\$1,063	11%
Corrections (Adult & Juvenile)	\$ 821	9%
Personal Property Tax Relief	\$ 809	9%
Local Law Enforcement (Sheriffs, HB599)	\$ 462	5%
DMHMRSAS	\$ 308	3%
Judicial Department	\$ 245	3%
Debt Service	\$ 231	2%
Revenue Stabilization*	<u>\$ 187</u>	<u>2%</u>
<b>Total</b>	<b>\$8,448</b>	<b>90%</b>

\*Annual, not ongoing, appropriation

# States Compared for Spending Per Capita

## Fiscal Year 2000



# Presentation Outline

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- Background of Growth in Virginia
- How Much Has the State Budget Grown?
- Where Did the Money Go?
- What Drove Budget Growth?

# What Factors Drove Budget Increases?

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- Inflation (price increases)
- Workload & service population increases
- Policy choices (including new federal mandates)
- Maintenance of effort

# Examples of Growth Factors

## 1981 - 2002

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<u>Factor</u>	<u>Growth</u>
Virginia Population	34%
K-12 Enrollment	12%
4-year College Enrollment	29%
Tuition (Undergrad-UVA)	306%
Medicaid-Eligible Recipients	136%
Disabled, Blind	166%
ADC/TANF caseload	- 57%
Support Enforcement Collections	>6,000%
State-Responsible Inmates	318%
MHMR Institutional Population	- 58%
Vehicle Miles Traveled	96%

# Examples of How Budgets Grew

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- **Department of Education**
- **Department of Medical Assistance Services**
- **Department of Corrections**

# Growth in Direct Aid to Public Education

(Total Appropriations; Dollars in Millions)

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	<u>FY 1981</u>	<u>FY 2002</u>	<u>Percent Change</u>
<b>Basic Aid Payments</b>	<b>\$446</b>	<b>\$1,842</b>	<b>313%</b>
<b>Local Share – State Sales Tax</b>	<b>212</b>	<b>770</b>	<b>263%</b>
<b>Categorical Financial Assistance</b>	<b>106</b>	<b>335</b>	<b>216%</b>
<b>School Employee Benefits</b>	<b>75</b>	<b>270</b>	<b>262%</b>
<b>Special Education Payments</b>	<b>29</b>	<b>222</b>	<b>661%</b>
<b>Remedial Education Payments</b>	<b>9</b>	<b>109</b>	<b>1,064%</b>
<b>Lottery Proceeds</b>	<b>--</b>	<b>361</b>	<b>--</b>
<b>All Other</b>	<b><u>234</u></b>	<b><u>523</u></b>	<b><u>124%</u></b>
<b>Totals</b>	<b>\$1,110</b>	<b>\$4,432</b>	<b>299%</b>

# Growth in K-12

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- **Increases in student enrollment, 1981- 2002**
  - **K-12: 12% growth**
  - **Students receiving special education services: 54% growth**
- **Increases in instructional positions funded per 1,000 pupils due to SOQ changes (1985-86 and 1989-90)**
- **Increases in funded salaries and benefit costs for instructional and support staff**
- **The interactive effect of increases in salary, position ratios, and enrollment levels**
- **Additions to the State's incentive-based accounts**

# Additions to the State's K-12 Incentive-Based Accounts (Appropriations Over \$10 million)

	<u>Initiated</u>	<u>FY 2002 Funding (millions)</u>
Dropout Prevention*	1988-90	\$11.0
At-Risk Add-on	1992-94	43.4
At-Risk Four-Year Olds	1994-96	18.8
Primary Class Size Reduction	1994-96	68.3
Education Technology Grants	1994-96	63.9
Early Reading Intervention	1996-98	12.4
SOL-Teacher Training*	1998-00	17.1
SOL-Remediation	1998-00	15.7
School Construction Grants	1998-00	55.0
Lottery Designated to Public Education	1998-00	144.6
Lottery Hold Harmless*	1998-00	14.8
Additional Elementary Teachers*	1998-00	28.2

\*Redirected in FY 2004

# Growth in Medicaid Spending

FY 1985 and FY 2002 (Dollars in Millions)

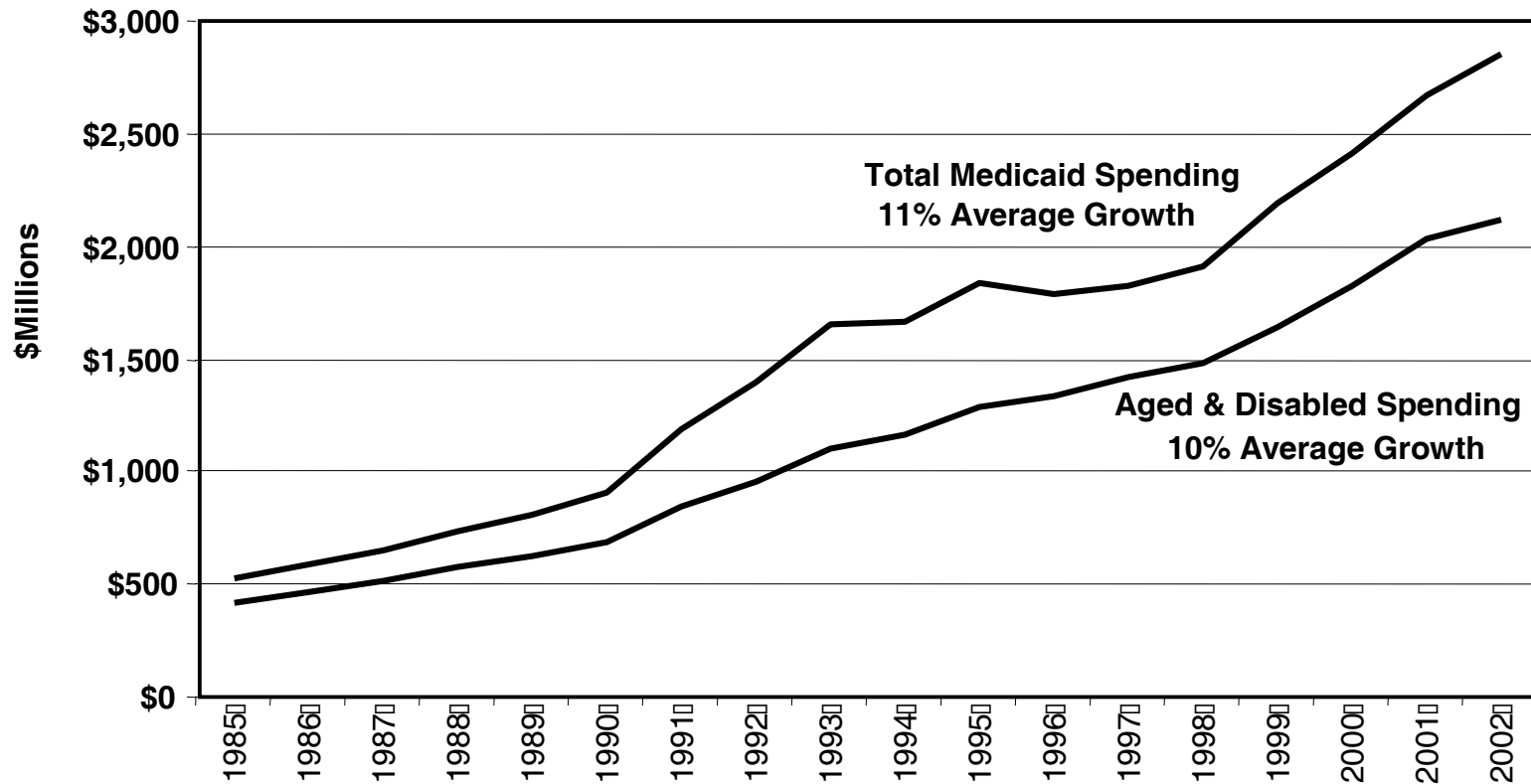
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	<u>FY 1985</u>	<u>FY 2002</u>	<u>% Change</u>
<b>Nursing Facilities</b>	<b>\$186</b>	<b>\$539</b>	<b>190%</b>
<b>Inpatient Hospital</b>	<b>94</b>	<b>524</b>	<b>457%</b>
<b>One-time Federal Payment</b>	<b>-0-</b>	<b>501</b>	<b>--</b>
<b>Managed Care</b>	<b>-0-</b>	<b>491</b>	<b>--</b>
<b>Drugs</b>	<b>41</b>	<b>380</b>	<b>827%</b>
<b>Physicians</b>	<b>41</b>	<b>127</b>	<b>210%</b>
<b>Other Long-Term Care</b>	<b>9</b>	<b>121</b>	<b>1215%</b>
<b>Outpatient Hospital</b>	<b>28</b>	<b>107</b>	<b>282%</b>
<b>Medicare Premiums</b>	<b>11</b>	<b>97</b>	<b>782%</b>
<b>All Other</b>	<b><u>22</u></b>	<b><u>153</u></b>	<b><u>595%</u></b>
<b>Total – General Medicaid</b>	<b>\$432</b>	<b>\$3,042</b>	<b>604%</b>

# Growth in Medicaid Spending

Annual Expenditures for Medical Services  
FY 1985 – FY 2002



# Economic & Demographic Factors Impacting Medicaid

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- **Population growth, 1980-2000**
  - State population: 34% growth
  - 85 and over: 112% growth
  
- **Overall inflation increased 98% from 1981 to 2002**
  - Medical inflation increased 245%
  
- **Federal match rate decreased due to formula based on State per capita income**
  - 1980: 56.5%
  - 2002: 51.45%

# Growth in Corrections Spending

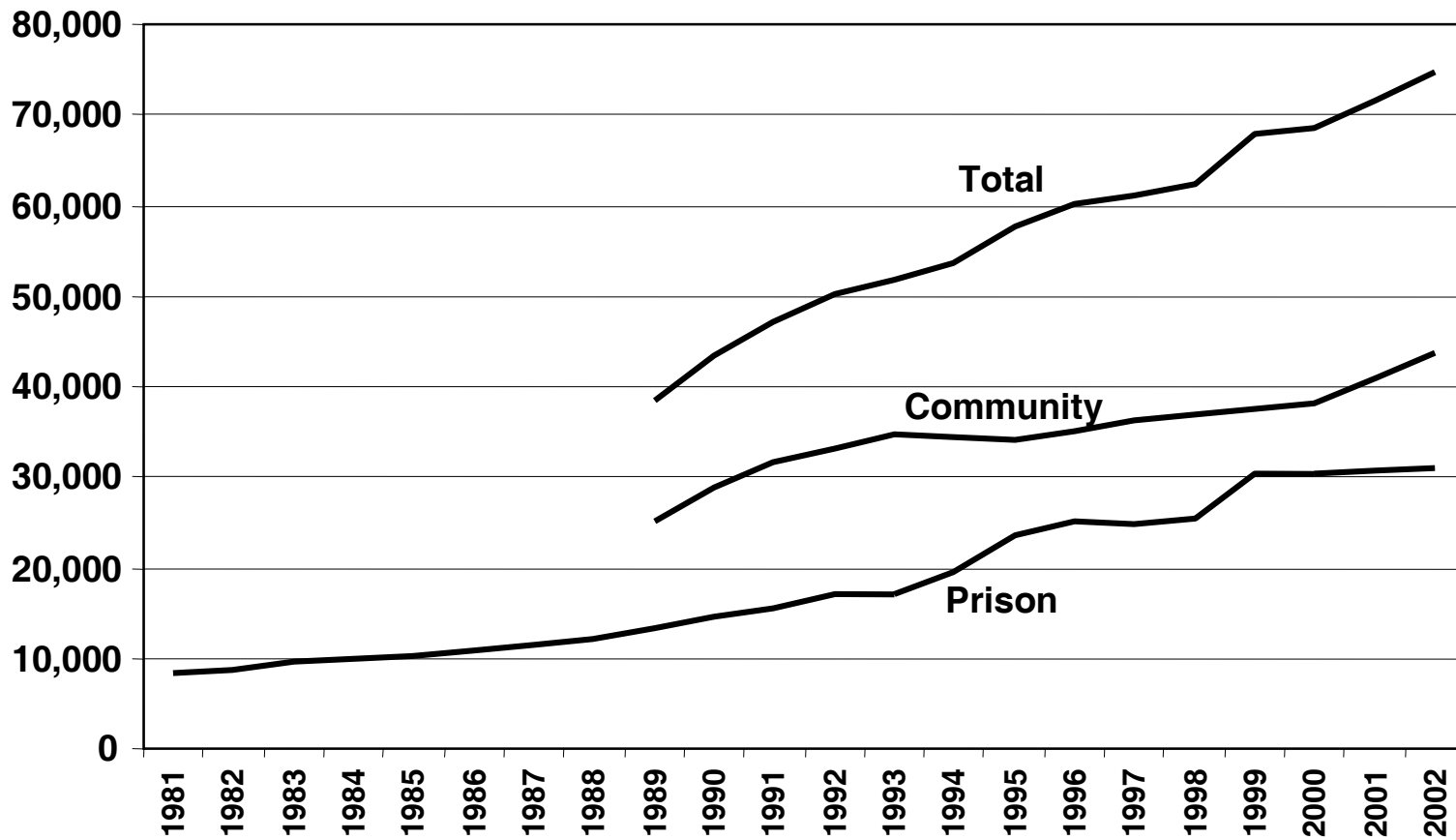
FY 1981 - FY 2002 (Dollars in Millions)

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	<u>FY 1981</u>	<u>FY 2002</u>	<u>% Change</u>
<b>Adult &amp; Juvenile</b>	<b>\$176</b>	<b>\$1,054</b>	<b>503%</b>
<b>Correctional Education</b>	<b>5</b>	<b>50</b>	<b>900%</b>
<b>Total</b>	<b>\$181</b>	<b>\$1,104</b>	<b>514%</b>

# Growth in Prison and Community Corrections Populations



# New Prison Facilities Since 1981

(\$ in millions)

40

<u>Completed</u>		<u>2002 Capacity</u>	<u>FY 2002 Appropriations</u>
1983	Buckingham Maximum Security	992	\$18.2
1983	Brunswick Medium Security	767	20.3
1984	Nottoway Maximum Security	1,200	23.6
1985	Augusta Maximum Security	1,120	20.2
1990	Keen Mountain Multi-custody	922	15.1
1990	Greenville Multi-custody	3,099	53.4
1990	Deep Meadow Expansion	976	14.7
1990	Field Unit Expansions (3)	1,238	17.4
1993-96	Medium Security Dormitories (5)	5,408	72.1
1996	Work Centers (7)	1,500	18.6
1996	Lawrenceville Medium Security	1,536	17.6
1996	Wallens Ridge Maximum Security	1,032	19.8
1997	Fluvanna Women's Multi-custody	1,255	22.3
1997-98	Sussex I & II Maximum Security	2,516	48.7
1998	Culpeper (Juvenile Facility)	112	9.6
1998	Red Onion Maximum Security	1,032	19.6
2001	St. Brides Medium Security	590	12.4
	<b>Totals</b>	<b>25,213</b>	<b>\$423.6</b>

# Conclusions

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- **The context of the State budget changed significantly between 1981 and 2002**
  - **For example, inflation went up 98%, and the State's population grew 34%**
- **These changes are reflected in the State budget**
- **Agency budgets changed in response to these factors and in response to changes in workload and service populations, and policy choices**

# Appendix

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## ■ Now on the JLARC website:

- Tables displaying General, Nongeneral, and Total Funds by year from FY 1981 – FY 2002, for:
  - Total appropriations
  - Each of the 10 largest agencies (by FY 2002 appropriations)
  - 10 largest Virginia appropriations, FY 2002

■ <http://jlarc.state.va.us>

# 10 Largest Virginia Appropriations

(FY 2002, \$ in millions)

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1.	Dept. of Education (inc. Direct Aid)	\$ 4,508.4
2.	Dept. of Medical Assistance Services	3,272.2
3.	Virginia Dept. of Transportation	2,654.2
4.	Dept. of Social Services	1,242.5
5.	University of Virginia	1,188.0
6.	Dept. of Corrections	828.9
7.	Personal Property Tax Relief	809.4
8.	Dept. of Mental Health, Mental Retardation, Substance Abuse Services	759.9
9.	Virginia Tech	639.1
10.	Virginia Commonwealth University	550.7
	<b>Ten-Agency Total</b>	<b>\$16,453.3</b>