Appendix D: The Basis of Virginia's Budget

Virginia's 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. Additional discussion of Virginia's budget processes may be found in the 2008 JLARC report, *The Potential for Improving Budget Review in Virginia.*

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

Budget Terminology

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

Appropriations

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 maximum limits that expenditures cannot exceed. In addition, appropriations are payable in full only if sufficient revenues are available to pay all appropriations in full. 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 Appropriations Act are not included. The Appropriations Act authorizes the Governor, under certain conditions, to make limited adjustments to appropriations.

Expenditures

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 amount, as authorized in the Appropriation Act.

Functions and Programs

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 is an attempt 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, intellectual disabilities, 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 Behavioral Health and Developmental Services, and the Department of Veterans Services.
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> The budget program "administrative and support services" combines a wide variety of discrete services, including architectural and engineering services, food and dietary services, physical plant services, human resources, information technology services, and others.

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 is typically 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 in Virginia. The 2013 Appropriation Act (Chapter 806) provided funding to entities identified by 184 unique agency codes. In 2004, 144 State agencies were identified in the JLARC report, *Review of State Spending: December 2004 Update* (House Document 19). In 2008, 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 (intellectual disability training centers), and 794 (Virginia Center for Behavioral Rehabilitation) must be combined to arrive at a budget total for the Department of Behavioral Health and Developmental Services (formerly 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), and "compensation and benefit adjustments" (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 184 unique agency budget codes are then adjusted for situations where multiple codes are assigned to a single agency, and to exclude various financial accounts (Table D-1).

This process identifies 147 State agencies. While this approach consolidates DBHDS programs and facilities into a single agency, it counts each of the courts—Circuit Courts, the various types of district courts, and the Magistrate System—as separate agencies, as does the Appropriation Act.

Table D-1: Counting State Agencies, FY 2013

Unique agency codes in 2013 Appropriation Act	184
Codes assigned to DBHDS 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 DARS (262) & 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[a]	27
Codes assigned to various financial activities[b]: DOA transfer payments (162)[c] Central appropriations (995) Towing and Recovery operations (507) Interstate Organization Contributions (921)	4
Total Number of State Agencies	**147**

[a] There were 27 agency codes in FY 2013 under the Division of Legislative Services.
[b] The four agency codes assigned to various financial activities were not included in the total number of State agencies for FY 2013.
[c] The Department of Accounts has a separate line item for transfer payments, which includes the Revenue Stabilization Fund (program 735).
Note: Total number of State agencies is calculated by subtracting the number of codes assigned from the number of unique agency codes, ensuring that the principal agency is correctly counted—e.g. from 184, subtract 5 for DBHDS facilities and programs and add back 1 for the overall agency.

Source: 2013 Appropriation Act (Chapter 806); Department of Planning and Budget.

This report, however, does not treat the personal property tax relief program as a separate State agency. In FY 2013, this program received an appropriation of $950 million and was larger than all but 10 State agencies. However, it was not included as an agency in the analysis of growth in appropriations over the last ten years among State agencies. Instead, it was discussed separately on page 20 of the report, along with the revenue stabilization fund and debt service, which is funded through the Treasury Board.

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 40 and 60 percent, respectively, of the FY 2013 Virginia budget. 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 annual budget decision-making process.