JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION
OF THE VIRGINIA GENERAL ASSEMBLY

Review of State Spending: December 2003 Update

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Preface

Section 30-58.3 of the *Code of Virginia,* adopted by the 2001 General Assembly, directs JLARC to develop an annual report on State spending growth. Part of the initial concern was that spending growth may have been excessive, since it exceeded the growth in both population and the rate of inflation.

This report is the third in JLARC's series on State spending. The first report reviewed spending from FY 1981 through FY 2000, as well as the general fund revenue forecasting process and the use of performance measures in Virginia. The second report, *Review of State Spending: June 2002 Update* (House Document 3 of the 2003 Session), updated the analysis of budget and expenditure growth through FY 2001. This report focuses on long-term expenditure and appropriation growth from FY 1981 through FY 2002.

Over this period, the population of Virginia increased 34 percent, growing from 5.4 million to 7.3 million persons. Inflation went up 98 percent. State spending increased 350 percent, at an average annual rate of 7.5 percent. Adjusting for inflation and population growth, Virginia spending grew 70 percent, an average annual rate of 2.6 percent. This long-term growth rate drops to 2.4 percent by further adjusting long-term spending by removing deposits to the revenue stabilization fund and financial assistance for personal property tax relief, neither of which are "spending" in the conventional sense.

Three broad functional areas of government – education (elementary, secondary, and higher education), individual and family services (Medicaid, child support enforcement, health services, and related programs), and transportation (principally highway construction and maintenance) – accounted for 71 percent of the total spending growth. State spending has been dominated by these core governmental activities throughout the period of this review.

A variety of factors drove State spending growth. Medical inflation, a key factor in the Medicaid and other health-related budgets, increased 245 percent over the period, compared to the 98 percent increase in the consumer price index. Workload and service population increases were also important: the number of State prisoners increased 310 percent, the number of Medicaid-eligible recipients went up 136 percent, while the ADC/TANF caseload decreased 57 percent. Virginia initiatives in a variety of areas such as standards of learning (SOLs), economic development, and others over the period were factors in spending growth.

On behalf of the JLARC staff, I would like to thank the staffs of the Department of Planning and Budget and of many other State agencies for their assistance during our review.

Philip A. Leone
Director

December 18, 2003

JLARC Report Summary

REVIEW OF STATE SPENDING:

DECEMBER 2003 UPDATE

December 2003

Joint Legislative Audit and Review Commission

The 2001 General Assembly adopted House Bill 2865, adding §30-58.3 to the *Code of Virginia*, requiring JLARC to develop an annual report on State spending growth. This legislation requires the report to identify the largest and fastest growing functions and programs in the State budget

This report is the third in JLARC's series on State spending. The first report, issued as *Interim Report: Review of State Spending* (House Document 30 (2002)), reviewed spending and budget growth from FY 1981 through FY 2000. The second report, *Review of State Spending: June 2002 Update* (House Document 3 (2003)), updated the analysis of budget and expenditure growth through FY 2001. This report focuses on long-term expenditure and appropriation growth from FY 1981 through FY 2002.

Growth in State Spending

Total State spending, including spending on capital projects and the expenditure of bond proceeds, increased 350 percent from FY 1981 to FY 2002, rising from $5.9 billion to $26.6 billion in current (not adjusted for inflation) dollars. Growth in total State spending, once the effects of the 98 percent inflation rate over the period are removed, was 127 percent, or 4.0 percent on an average annual basis. Taking both the population growth of 34 percent over the period and inflation into account leaves a somewhat slower 2.6 percent average annual growth rate in State spending (Figure 1).

Budget growth was concentrated in traditional core services of State government. In terms of the eight broad government functions, two – education and individual and family services – accounted for 59 percent of the growth in total appropriations over the period (Figure 2). Each of these broad functions comprise a wide range of agencies and activities more fully discussed in the report.

Looking at State agencies, over half the appropriations increase was accounted for by five agencies out of the 144: the Departments of Education, Medical Assistance Services (Medicaid), Transportation, Social Services, and the University of Virginia. The entity with the sixth largest amount of budget growth over the 22-year period may also be the newest addition to the core activities of government, namely the personal property tax relief program, which received its first appropriation in FY 1999 yet had expenditures exceeding $800 million by FY 2002.

Examining general fund growth *rates* yields a slightly different perspective on

Figure 1

Virginia Expenditures

FY 1978-FY 2002, Budgetary Basis

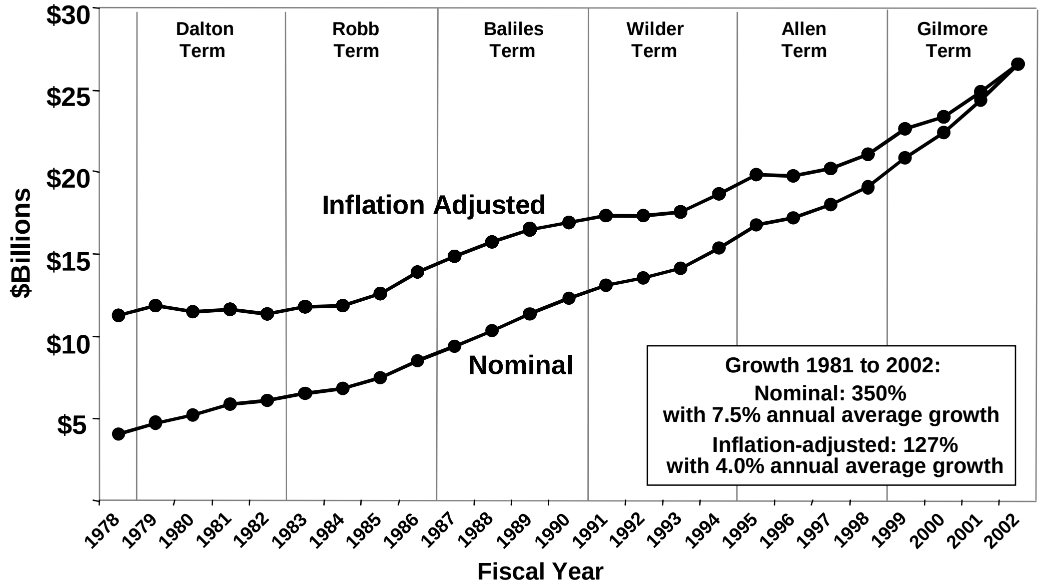
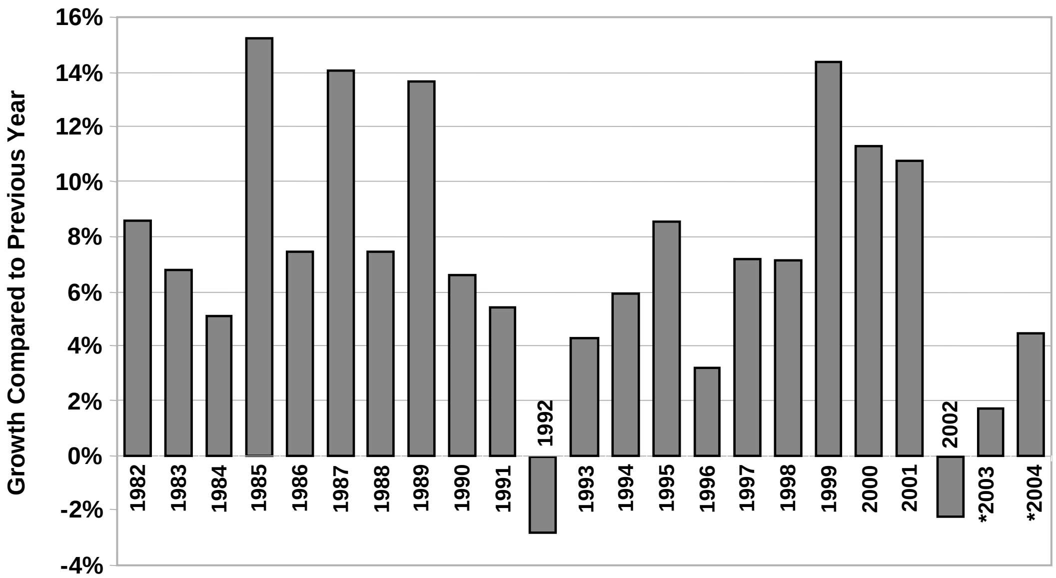


Figure 2

General Fund Appropriations Growth Has Varied Significantly



*May 2003 forecast.

the other two agencies with high rates of general fund growth.

Program Growth Since FY 1999

A review of spending growth in the approximately 250 programs that make up the Virginia budget indicates that growth rates vary considerably across programs, and that a few large programs dominate spending. The variation in turn contributes to the spending patterns seen at the broad governmental function level. (Spending data at the program level is available only since FY 1999.)

Ten programs accounted for 53 percent of all spending in FY 2002, and for 62 percent of all spending growth between FY 1999 and FY 2002 (see table below). Medical assistance services (Medicaid) showed the largest total dollar growth over the period, and accounted for the largest share of spending growth. Medicaid accounted for 21 percent of the total spending growth between FY 1999 and FY 2002.

The second largest spending increase over this four-year period was in the personal property tax relief program. This program was ramping up during this period, having received its first appropriation in FY 1999. It not only accounted for the second largest amount of total growth – 11 percent or $645 million – but also had the highest growth rate among the larger budget programs, with a 356 percent growth rate between FY 1999 and FY 2002.

The third largest dollar growth program was employment assistance services, which increased $531 million over the four years. This was due largely to increases in the duration and maximum benefit amounts, actions taken in the wake of the terrorist attacks on September 11, 2001. State fund-

Budget Programs with the Most Expenditures
FY 2002
(All funds, $ in Millions, Not Adjusted for Inflation)

Rank	Program Name	FY 2002	Growth Since FY 1999
1	Medical Assistance Services	$3,680	$1,217
2	Financial Assistance for Public Education (Standards of Quality)	2,692	376
3	Highway System Acquisition & Construction	1,640	199
4	Higher Education Instruction	1,201	115
5	Employment Assistance Services	925	531
6	Financial Assistance for Public Education – Special State Revenue Sharing (Sales Tax)	914	114
7	Highway System Maintenance	843	87
8	Personal Property Tax Relief	826	645
9	State Health Services	804	95
10	Higher Education – Education & General Services	683	177
	Total of 10 Largest Programs	$14,208	$3,556
	Percentage of Total	53%	62%

ing for the Standards of Quality (SOQ) grew $376 million over the period, the fourth highest amount.

Major Factors Driving Spending

State spending trends occur within the broader context of Virginia's changing economy, population, and government. Key trends promoting spending growth include inflation, population and economic growth, and a variety of additional factors such as changes in the populations served and workloads managed by State agencies, State initiatives, and federal mandates. The explanation is constrained by an inherent limitation of trend analysis — the analysis does not establish the appropriateness of the expenditure amount in either the base year or the end year.

Over the 22-year period under review, underlying economic conditions went through several distinct phases. The period includes three national recessions (the early 1980s, 1991-92, and 2001) and two "boom" periods (the 1980s and the late 1990s). Virginia's general fund revenues followed these trends in the overall economy, seeing double-digit growth rates in FYs 1985, 1987, and 1989, and again in FYs 1999, 2000, and 2001. The national recession that began in 2001 quickly affected Virginia's budget, reflected in the $270 million decrease in the FY 2002 general fund budget.

Virginia's population grew 34 percent, faster than the national average of 24 percent, between the 1980 and the 2000 censuses. The fastest growing portion of the population was the elderly; the over-85 group increased 112 percent over the 20-year period. Growth was uneven around the State, however, as 16 counties and 13 cities actually lost population throughout the period.

Inflation contributed to increases in the budget and spending over the period. The consumer price index increased 98 percent between 1981 and 2002, requiring more dollars to continue providing a constant level of services. Costs in some key governmental services exceeded the overall inflation rate; consumer prices for medical care, for example, inflated 245 percent during the period.

The reasons for growth in State agencies and programs generally go beyond the effects of inflation and population growth. Potential inadequacies in State funding during the base year of 1981, or in any other year, can be a factor. Policy decisions, federal requirements, demographic and economic factors, and even basic decisions about what should and should not be included in the State budget help explain budget growth. For example, one key factor in understanding Virginia's budget and spending growth is the requirement in the *Constitution of Virginia* that all State spending may occur only as provided by appropriations made by the General Assembly. One effect of this provision is that funds as varied as child support payments, college tuition, and payments by State employees for health insurance and other benefits must first be included in the Budget Bill and appropriated by the General Assembly. In the case of many of these funding sources, the State budget serves mainly as a conduit for money earmarked for specific purposes. Growth in these nongeneral funds nevertheless help drive up the State budget and State spending.

Explaining growth in specific agencies and programs often involves a variety of factors. This report discusses these agency-specific factors for several agencies.

A case in point is budgetary growth in the Department of Education, which includes the costs of enrollment growth and policy decisions over the period, as well as growth in the amount of sales tax earmarked for education. The policy decisions included adjusting the standards of quality (SOQs) by increasing the number of instructional positions per 1,000 students and by increasing the salaries and benefit costs for instructional and support staff. Although the State-funded teacher salary level in FY 2002 was less than the statewide average salary (and less than the national average), at $37,602 the figure represented a large percentage increase over the estimated State-funded salary level of $13,660 in FY 1981. More students and more teachers, higher salaries and benefits for the teachers, and other factors all combined to increase the State's share of the cost of education.

Several new initiatives also led to increased State spending. The most important new initiative during this period, in terms of its impact on spending, was personal property tax relief, budgeted at $809 million in FY 2002. Other initiatives included increased funding for the "HB 599" program, annual deposits to the revenue stabilization fund, salary increases, and numerous smaller initiatives that together represent hundreds of millions of dollars in new annual spending.

Virginia also spends billions of dollars to meet the matching requirements of numerous federal grant programs. By far the largest is the Medicaid program at over $1.5 billion annually. The second largest is highway construction, at $793 million in FY 2002. Although the federal government supplies substantial amounts of funding for these programs, Virginia's participation requires substantial State financial commitments.

Though spending has increased since FY 1981, Virginia's funding priorities have been relatively stable despite significant change in the context of Virginia's budget. Factors such as population growth, inflation, workload changes, and policy choices have contributed to growth in the State budget. The growth in Virginia's overall appropriations and spending growth has nonetheless been matched by the pace of growth in other states. In per capita, inflation-adjusted terms, Virginia continued in FY 2002 to be ranked in the mid-30s relative to all 50 states.

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I. Introduction

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. The statute requires JLARC to identify the largest and fastest growing functions and programs in the State budget, and analyze the long-term trends and causes of spending in these programs. Appendix A includes the study mandate.

Other recent reports address aspects of this legislation. A series of JLARC Special Reports in 2002-2003 identified opportunities for efficiencies, savings, and revenue enhancements, many of which were implemented. The work of the HJR 159 Joint Subcommittee on Boards and Commissions, supported by JLARC staff, recommended the elimination of 59 collegial bodies; 43 of these entities were subsequently eliminated.

This report is the third in JLARC's series on State spending. The first report, issued as *Interim Report: Review of State Spending* (House Document 30 (2002)), reviewed spending and budget growth from FY 1981 through FY 2000. The second report, *Review of State Spending: June 2002 Update* (House Document 3 (2003)), updated the analysis of budget and expenditure growth through FY 2001. This report focuses on long-term expenditure and appropriation growth from FY 1981 through FY 2002.

OVERVIEW OF BUDGET AND SPENDING GROWTH

Virginia's budget and spending have increased since FY 1981, the starting point for this review. The State operating budget increased 312 percent between FY 1981 and FY 2002, growing from $5.7 billion to $23.5 billion. Total State spending (which includes capital spending as well as the expenditure of bond proceeds) increased 350 percent from FY 1981 to FY 2002, rising from $5.9 billion to $26.6 billion in nominal (not adjusted for inflation) dollars. Figure 1 reflects the 7.5 percent annual average increase in expenditures.

Controlling for the effects of both inflation and population growth removes much, but not all, of the upward growth (Figure 1). Inflation contributed to increases in the budget and spending during this period, rising 98 percent (as measured by the consumer price index) between FY 1981 and FY 2002. Growth in total State spending, once the effects of inflation are removed, was 127 percent over the period, or 4.0 percent on an average annual basis.

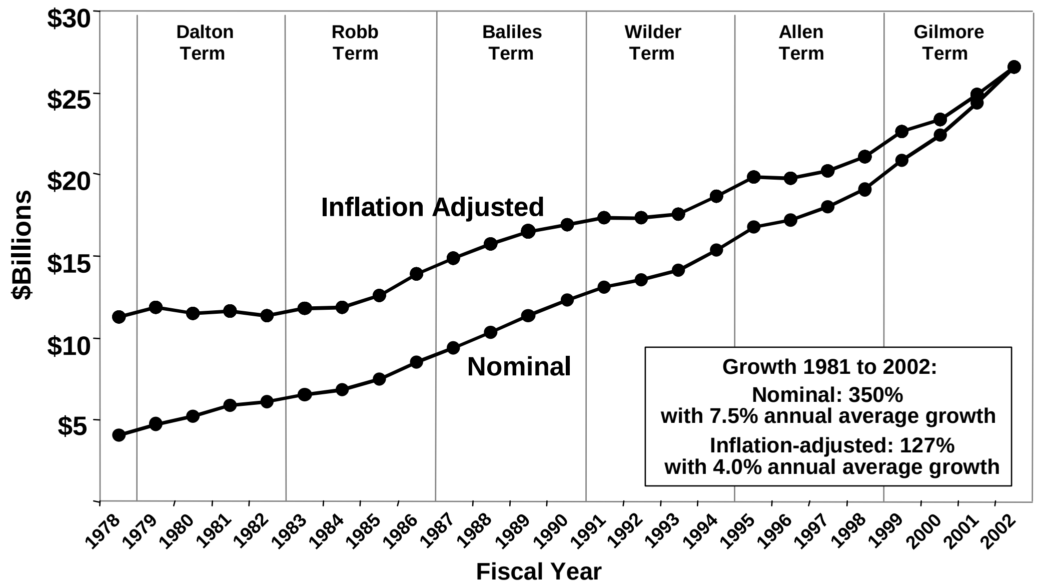
Over these 22 years, the Virginia budget went through several distinct phases, reflecting underlying economic conditions. Nationally, the recession of the early 1980s was one of the most severe of the post-World War II period. The national recovery was equally dramatic, and Virginia's budget grew relatively fast through FY 1989.

Steady increases in appropriations occurred in the late 1980s, peaking with a 13.6 percent growth rate in total appropriations in FY 1989 (Table 1). General

Figure 1

Virginia Expenditures

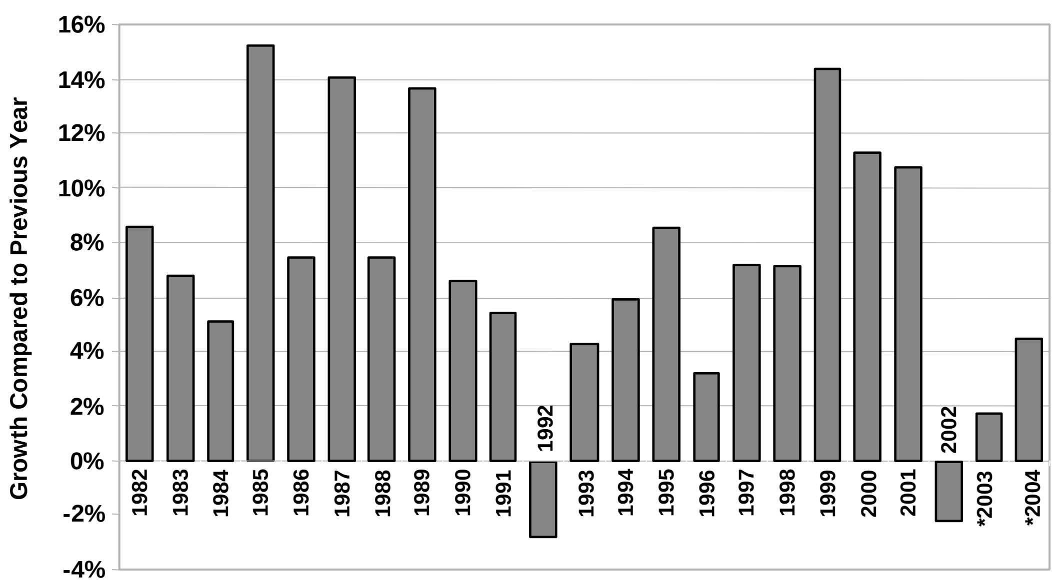
FY 1978-FY 2002, Budgetary Basis



Source: Comprehensive Annual Financial Reports, 1981-2002, Department of Accounts.

Figure 2

General Fund Appropriations Growth Has Varied Significantly



*May 2003 forecast.

Source: Appropriation Acts, 1982-2003.

fund growth rates were higher through this period, as shown in Figure 2. The recession of the early 1990s impacted State finances, and the 1992 budget responded to the economic downturn with general fund decreases of $174 million, a more than two percent decrease from the prior year (Figure 2). Through the 1990s the national economy experienced the longest expansion in U.S. history, and Virginia's budget grew handily, finishing the decade with three consecutive years of double-digit general fund growth. The 22-year history of Virginia appropriations is included in Table 1.

The national recession that began in 2001 quickly affected Virginia's budget, reflected in the decrease of $270 million in the FY 2002 general fund budget. By FY 2004, general fund appropriations had nearly returned to the FY 2001 level, marking several years of little change in the State's general fund appropriations. During this period of little change in the general fund, the State's nongeneral funds experienced two years of double-digit growth rates, sufficient to keep the overall State budget growing.

Many other factors also impacted the State's finances during the 22-year period of this report. Virginia became more prosperous as per-capita income, after adjusting for inflation, grew 47 percent, the ninth highest growth rate in the nation. The gross State product increased 103 percent during the period, after adjusting for inflation. Yet growth was not uniformly distributed across the State, as several localities experienced declines in both population and personal income during the period, while other localities grew at more than double the statewide rates. The period of this report also stretches across the terms of six Virginia governors, each of whom had a variety of spending initiatives.

MAJOR SPENDING AND BUDGET DRIVERS

State spending trends occur within the broader context of Virginia's changing economy, population, and government. Within this broader context are important "budget drivers" – trends or events that promote budget and spending growth. Some important trends promoting or driving spending growth include overall price inflation, population and economic growth, changes in the populations served and workloads managed by State programs, State initiatives, and federal mandates.

A key factor in understanding Virginia's budget and spending growth is the requirement in the *Constitution of Virginia* that all State spending may occur only as provided by appropriations made by the General Assembly. One effect of this provision is that funds as varied as child support payments, college tuition, and payments by State employees for health insurance and other benefits must first be included in the Budget Bill and appropriated by the General Assembly. In the case of many of these funding sources, the State budget serves merely as a conduit for money earmarked for specific purposes. Growth in these funding sources nevertheless helps drive up the State budget and State spending.

It should also be noted that this report does not address the adequacy of funding in governmental functions, agencies, or programs. Consistent with the

Table 1

Virginia Operating Appropriations

(Not Adjusted for Inflation, Dollars in Millions)

Fiscal Year	General Funds	Non-General Funds	Total Appropriations	% Change
1981	$2,687	$3,026	$ 5,713	--
1982	2,904	3,129	6,033	5.6%
1983	3,111	3,366	6,477	7.4%
1984	3,268	3,573	6,841	5.6%
1985	3,753	3,929	7,682	12.3%
1986	4,032	4,237	8,269	7.6%
1987	4,599	4,751	9,351	13.1%
1988	4,932	5,089	10,021	7.2%
1989	5,619	5,765	11,383	13.6%
1990	5,989	5,847	11,836	4.0%
1991	6,315	6,305	12,620	6.6%
1992	6,140	6,717	12,858	1.9%
1993	6,402	7,526	13,927	8.3%
1994	6,777	7,909	14,686	5.4%
1995	7,356	8,498	15,854	8.0%
1996	7,597	8,694	16,291	2.8%
1997	8,134	8,997	17,131	5.2%
1998	8,715	8,905	17,621	2.9%
1999	9,967	9,995	19,962	13.3%
2000	11,093	10,276	21,369	7.0%
2001	12,284	11,039	23,323	9.1%
2002	12,014	11,469	23,483	0.7%
Change 1981 to 2002	$9,327	$8,443	$17,770	
Percent Change 1981 to 2002	356%	355%	356%	
Annual Average Change	7.0%	6.9%	6.9%	

Note: Excludes capital appropriations.
Source: Acts of Assembly, final legislative appropriation for respective fiscal years.

legislative mandate for this report, it attempts only to identify long-term trends and factors that appear to underlie the trends.

Inflation Increased 98 Percent

As a general increase in the level of prices, inflation explains much of the increase in the State budget. As measured by the consumer price index, inflation increased by 98 percent over the period of this review. As a result, the State budget would have had to nearly double by FY 2002 just to maintain the same service level as in FY 1981. Adjusted for the effects of inflation, Virginia's total appropriations increased 127 percent over the period (Figure 1).

Adjusting for inflation can help better explain underlying budget change. The inflation measure most widely used is the consumer price index for all urban consumers, which is used in this report to adjust total appropriations and expenditures for inflation. There are also measures of program-specific inflation. Any given program may experience faster or slower rates of inflation depending on the particular mix of goods and services purchased by that program. For instance, medical care inflation (as reported by the U.S. Bureau of Labor Statistics) increased 285 percent over the period. Controlling for medical care inflation, Virginia's Medicaid spending per recipient increased just five percent from FY 1980 to FY 2002.

Virginia's Population Grew 34 Percent

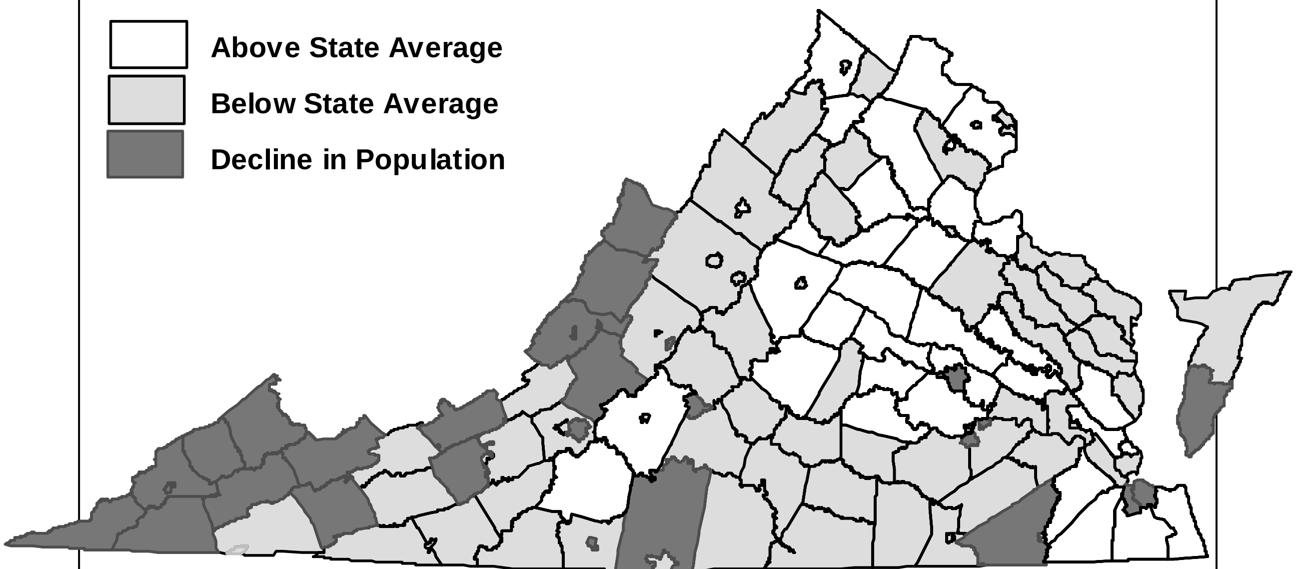
Virginia became more populous over this 22-year period. Population increased by 34 percent between 1981 and 2002, from 5.4 million to 7.3 million people (Table 2). Virginia ranked as the 12th fastest growing state in terms of population over this period.

Most localities gained population, but 29 (16 counties and 13 cities) lost population between the censuses conducted in 1980 and 2000 (Figure 3). The pattern continued to shift after 2000, as 35 localities lost population between 2000 and 2003, according to the U.S. Census Bureau. Norfolk, Hopewell, and Wise County lost population between 1980 and 2000, but since 2000 have gained population. Conversely, four cities (Williamsburg, Charlottesville, Galax and Franklin) and seven counties (Sussex, Brunswick, Mecklenburg, Halifax, Cumberland, Grayson, and Lancaster) grew over the 20-year period, but have declined since 2000.

Demographic changes can also drive budget increases. For instance, the size of Virginia's population over the age of 85 grew 112 percent between the 1980 census and that of 2000. A growing elderly population can drive increases in Medicaid-funded nursing home payments and other medical expenses. At the same time, the number of children (under age 18) increased by 15 percent. These children represent potential demand for elementary, secondary, and higher education. Other indicators of change in the economy and population during the 22-year period are shown in Table 2.

Figure 3

Population Growth in Virginia, 1980-2000.



Source: U.S. Census Bureau.

Overall, Virginia's growing population suggests a need for higher service levels in some State programs, such as education (elementary, secondary, and higher) and transportation. Areas with declining population may have greater need for other State activities, such as economic development. Other populations served by State programs such as Temporary Assistance for Needy Families (TANF), unemployment insurance, and Medicaid expand or contract at least partly in response to Virginia's economic performance.

Virginia's Economic Growth Has Been Substantial

Virginia became more prosperous during the decades covered in this report. Real per-capita personal income (adjusted for inflation) grew 47 percent from 1981 to 2001, according to data from the U.S. Bureau of Economic Analysis. This rate of growth placed Virginia eighth among the 50 states in terms of real per-capita growth in personal income.

Although personal income increased in Virginia over the period, like population, it did not increase uniformly across the State. Twenty-two localities saw growth above the statewide average in per-capita inflation-adjusted personal income over the period (Figure 4), and three localities actually experienced declines in this measure of income. Income growth was geographically concentrated, as over half the personal income growth in Virginia during the 22-year period occurred in just seven localities, as indicated in Figure 4.

Table 2

The Context of Change in Virginia

Selected Indicators, 1981 - 2002

(Dollar Changes Not Adjusted for Inflation)

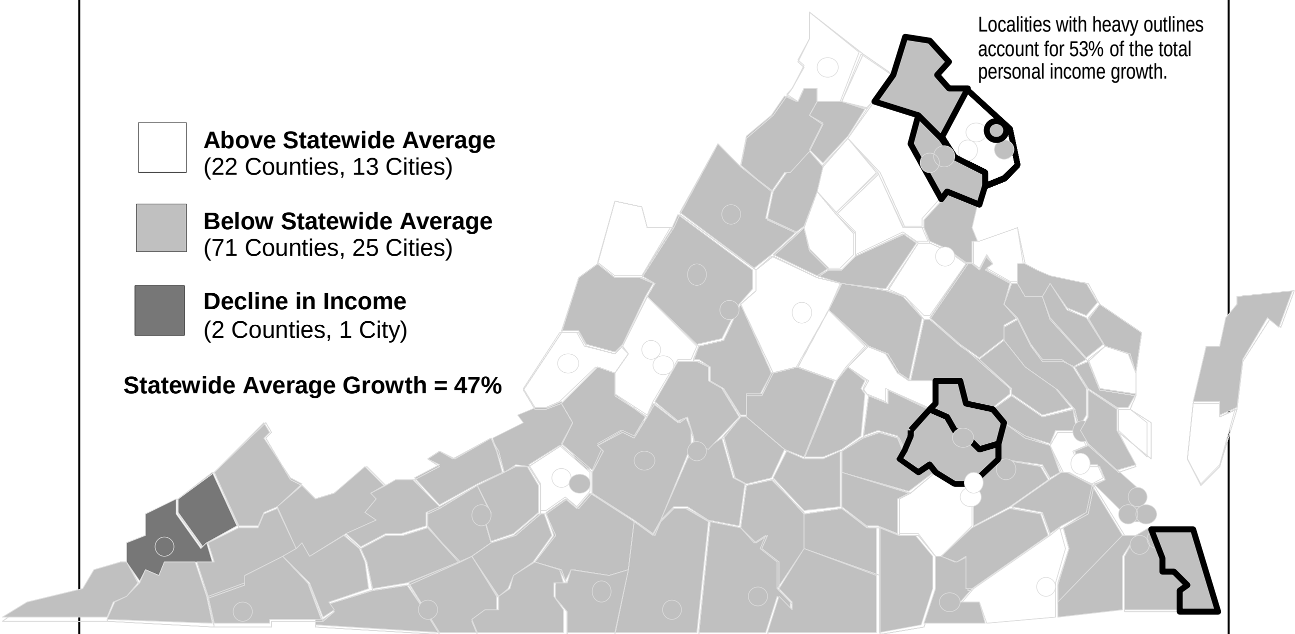
	1981	2002	Percent Change
Population			
Population	5,444,097	7,293,500	34%
Population 18 & Under	1,684,935	1,937,086[5]	15%
Population 85 & Older	41,131	87,266[5]	112%
Foreign-Born	177,318[2]	570,279[5]	222%
Percent of population below poverty line	11.8%[9]	7.9%	-33%
Economy			
Total Employment in Virginia (Nonfarm)	2,160,792	3,498,300[3]	62%
Total State Personal Income (Millions)	$61,470	$241,423	293%
Per-capita Personal income	$11,291	$32,922	192%
Gross State Product (Millions)	$68,045	$261,355	284%
Service Sector Share of Private Earnings	25%	32%[4]	28%
Manufacturing Sector Share of Private Earnings	26%	10%[4]	-62%
Mining Sector Share of Private Earnings	4%	0.5%[4]	-88%
Total Federal Outlays (Billions)	$678,249	$2,052,320	318%
State Finance			
Total Revenues (Millions, cash basis)	$5,802	$25,902	346%
State Budget (Millions)	$5,708	$23,483	311%
State General Fund Operating Budget (Millions)	$2,672	$12,014	350%
Income Tax Returns Filed	2,184,172	3,778,000[3]	73%
Individual Income Taxes Collected (Millions)	$1,289	$6,710.8	421%
Sales & Use Taxes Collected (Millions)	$645	$2,430	277%
Average State Employee Salary	$13,445	$34,546	157%
Maximum State Employment Level	90,743[1]	109,514	21%
State Workloads/Populations Served			
Elementary & Secondary Education Enrollment	1,024,334	1,143,018	12%
Special Education Pupils (K-12)	107,236	164,878	54%
Enrollment, 4-Year Colleges & Universities	123,292	158,787	29%
Undergraduate Tuition & Fees (In-State; UVA)	$1,044	$4,236	306%
Medicaid-Eligible Recipients	288,254	681,200	136%
ADC/TANF average monthly recipients	160,679[2]	68,372	-57%
Support Enforcement Collections (Millions)	$7.4	$485.8	>6,400%
State-Responsible Inmate Population	8,363	34,343	310%
Probation & Parole Caseload	18,316	43,715	139%
MHMR Institutional Daily Average Census	8,024	3,342	-58%
Registered Vehicles	3,823,055	6,813,474	78%
Vehicle Miles Traveled (Billions of Miles)	38.4	75.3[3]	96%
State Park Visitors	3,718,000	7,017,052[4]	89%
Capacity in Licensed Assisted Living Facilities	10,420[6]	34,177	228%
Auxiliary Grant Recipients	2,281[6]	6,604	190%
Licensed Child Care Centers & Homes	978[7]	4,125	322%
Foster Care Expenditures (Millions)	$4.4[8]	$43.2	882%

[1]1983 data. [2]1980 data
[3]Preliminary or estimate. [4]2001 data
[5]2000 Census data [6]FY 1979 data
[7]1989 data [8]1982 data
[9]1979 data

Sources: JLARC staff analysis of data from various agencies.

Figure 4

Growth in Per-Capita Inflation-Adjusted Personal Income, By Locality, 1981-2001



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

The Virginia economy grew over the period by all commonly used measures of economic activity: personal income, employment, and gross State product. The importance of a growing economy and greater wealth is that, on the supply side, a wealthier population generates increased revenues. On the demand side, new business and population centers require additional public sector services from roads to schools and public safety.

Economic growth has been driven by increases in the workforce and by changes in the mix of industries employing Virginians. Employment in the non-farm workforce grew by 62 percent between 1981 and 2002, from 2.16 million to 3.5 million. The share of the population participating in the workforce also increased. In 1981, 40 percent of the population was in the non-farm workforce. By 2002 this share had grown to 48 percent.

Shifts to higher paying service industries also characterize Virginia's recent economic growth and account for much of the growth in personal income (Table 2). The share of private earnings going to the service sector has increased, while the share going to the manufacturing and mining sectors has decreased. Over this time, the share of private earnings attributable to government also declined, falling from 32 percent of all non-farm earnings in 1981 to 24 percent in 2001. This decrease reflects the relatively smaller role of the federal government, as state and local government's share remains constant at 11 percent in both 1981 and 2001. One effect of the smaller federal role, however, has been the devolution of responsibilities to State and local governments.

Key Workload Indicators of Government Programs Have Generally, But Not Uniformly, Increased

The broad demographic and economic changes described above influenced key indicators of the workload of several major State government programs, although there is no consistent trend (Table 3). Some grew tremendously while others declined.

The link with their respective State agency budgets, as illustrated in Table 3, is also not always clear or consistent. In some cases, growth in the population outpaced inflation-adjusted budget growth. In other cases, service population growth was slower than the real budget growth. In these cases, excessive price inflation, expansions in the level or kinds of services provided, or other factors may explain the increase in spending. It should also be noted that trends in subpopulations or other workload factors may be important in explaining an agency's budget growth.

Table 3
Selected Workload Indicators and Budget Change
FY 1981 – FY 2002
(Dollar Changes Adjusted for Inflation)

Population and Budget	**% Change in Population**
Elementary and Secondary Education Enrollment (Average Daily Membership)	12%
Department of Education Budget	105%
4-Year Public College & University Enrollment (Full-Time Equivalent students)	29%
4-Year Public College & University Budgets	105%
Medicaid-Eligible Recipients	136%
Department of Medical Assistance Budget	279%
Adjusted for Medical Inflation	118%
AFDC/TANF Recipients	-57%
Temporary Income Supplemental Services Program Budget	-74%
MHMR Institutional Average Daily Census	-58%
Mental Health & Mental Retardation Facility Budget	36%
Vehicle Miles Traveled	96%
Department of Transportation Budget	38%
State Inmate Population (excluding out of state inmates)	318%
Department of Corrections Budget	139%

Sources: JLARC staff analysis of agency data.

Appropriations for education, Medicaid, and institutional mental health and mental retardation services have grown faster than the broad measures of service populations of those programs. In other words, per student and per patient costs for these services have increased. A variety of factors may account for these increases, such as potential inadequacies in base year appropriations, federal and State policy choices and mandates, rapid prescription drug cost increases in Medicaid (Table 3 notes the effects on change in the Medicaid budget due to medical inflation), and staffing requirements in mental health facilities.

In other areas, service populations are growing faster than spending or are decreasing in relation to spending. Corrections budgets rose more slowly than the prison population as the department closed inefficient, small facilities and opened more efficient, larger prisons. VDOT's budget rose more slowly than a commonly used measure of traffic – vehicle miles traveled. Temporary income assistance (AFDC and now TANF) spending fell at a faster rate than the decrease in program recipients. Further discussion of these may be found in the agency profiles included in *Interim Report: Review of State Spending* (House Document 30 (2002)). State initiatives, discussed in the following section, also account for some of the budget growth during this 22-year period.

Federal Mandates Drive Much of State Spending

Throughout the period covered by this review, the federal government adopted legislation that required additional State spending and provided matching funds for voluntary State participation. In some cases, simply to continue participating in a federal program required substantial State funding.

In most cases the federal government provides some funding for federal mandates and incentive programs. These funds provide states an opportunity to pursue programs they might not otherwise attempt. The largest federal programs in Virginia are the Medicaid and highway construction programs. Many of these programs impose substantial administrative or regulatory requirements on the State to maintain its eligibility. The eight largest federal programs represented $4.1 billion in federal spending in Virginia in federal fiscal year 2002. The matching rate Virginia is required to provide varies from program to program.

The Medicaid program, which pays for health care for certain eligible individuals, is an example. Medicaid is the largest federal program in the Virginia budget with $1.7 billion in federal funds and a total budget of $3.3 billion in FY 2002. Over the years there have been a variety of mandatory program expansions that Virginia has accommodated in order to continue receiving the federal funds.

Examples of Medicaid expansions by the federal government include raising the resource levels individuals may maintain and still be eligible, expanding services provided to Medicaid-eligible children, and expanding enrollment by increasing coverage of pregnant women and children. The State's Medicaid agency, the Department of Medical Assistance Services (DMAS), has estimated the initial costs of federally mandated changes to the program at $107 million through 2002. This amount only includes the first-time implementation costs, not the recurring spending that resulted from increases in enrollment and services provided.

Other federal mandates include: 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; higher staffing requirements at State mental health facilities, increasing costs at the Department of Mental Health, Mental Retardation and Substance Abuse Services; the motor voter law, administered by the Department of Motor Vehicles; and special education funding requirements, administered by the Department of Education. 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 the costs of doing business for State government.

Although Virginia receives a substantial amount of federal funds, the Commonwealth is not a large federal grant recipient in per-capita terms. Since federal fiscal year 1995, Virginia has been 49th or 50th in the nation in terms of per-capita federal grants, although in FY 2002 Virginia advanced to 47th. At the same time, Virginia enjoys a disproportionate share of total federal spending due to the large military presence in the State and the geographic proximity to Washington D.C. These issues are discussed more fully in the recent JLARC report, *Review of Virginia's Activity in Maximizing Federal Grant Funds.*

Virginia Initiatives Triggered Spending

In addition to overall population and economic growth, and changes in major service populations, State initiatives have also driven spending. During the 22-year period of this review, Virginia embarked on numerous policy and programmatic 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. In other cases, the initiatives stemmed from federal, legislative, or other sources. Once enacted, however, these initiatives tend to remain significant sources of expenditure, even if their growth is uneven. To illustrate the impact of initiatives, this section discusses several policy initiatives that together accounted for \$2.6 billion in FY 2002 appropriations, or 11 percent of the total budget.

Four initiatives that together received \$1.9 billion in FY 2002 appropriations were described in the *Interim Report: Review of State Spending* (House Document 30 (2002)), including:

- Transportation initiatives in 1986, which generated more than \$700 million in revenue in FY 2002;
- The revenue stabilization fund, which was initially funded in FY 1995 and had a FY 2002 appropriation of \$187.1 million;

- The "HB 599" program of financial assistance to localities with police departments, adopted in 1979, had an appropriation of $172.8 million in FY 2002; and

- Phase-out of the personal property tax, beginning in 1998 and requiring an appropriation of $809.4 million in FY 2002.

Other initiatives also contributed to spending growth, including the use of general funds for transportation, economic development assistance, local school construction, the "standards of learning," employee compensation, and other initiatives throughout the 22-year period.

General Funds for Transportation. Historically, transportation activities such as highway construction and maintenance have been funded with revenues from earmarked sources. An example is the tax on motor fuels, with the notion that the tax served as a user fee paid in exchange for using transportation facilities and services. Beginning in FY 1991, however, some general funds were appropriated for transportation purposes (language in the Appropriation Act indicated that these general funds were to derive from the State recordation tax, and were to be used for the US Route 58 Corridor Development Fund).

With the adoption of the Virginia Transportation Act of 2000, the amount of general funds in transportation significantly increased. In FY 2001, $325.6 million in general funds was appropriated to VDOT, along with $45 million for FY 2002. This trend continued into FY 2003, when $140.6 million in general funds was appropriated to VDOT.

Economic Development Assistance. Virginia has dedicated funding to a variety of incentive programs designed to entice businesses to relocate or maintain employment in the State. A recent JLARC review (*Special Report: State Business Incentive Programs, 2002)* found that certain of these incentive programs helped create over 22,000 jobs in the 1997-98 timeframe, with another 10,000 jobs in subsequent years. The review also noted that cutting these programs would, within three years, be likely to decrease tax revenues by more than the amount saved. These programs appear to be good investments, and they are Virginia initiatives. By FY 2002, $71.4 million per year was appropriated for these and related economic development activities.

The major components of this policy are pursued through the Virginia Economic Development Partnership, which received $21.9 million in general funds in FY 2002. The Governor's Development Opportunity Fund received an appropriation of $30 million in general funds, and other economic development activities were funded through the Department of Business Assistance, including $19.5 million in general funds.

School Construction. The vast majority of Virginia funding for elementary and secondary education goes for operating expenses of the 132 local school divisions. The State has traditionally supported local school capital projects through loans from the Literary Fund.

In recent years, the State has taken a more direct role in school construction. Beginning with the 1998-2000 budget, 50 percent of the local share of lottery proceeds was required to be used by local school divisions for nonrecurring costs, such as construction. Beginning in FY 2001, the State provided an additional $55 million annually in general funds for the school construction grant program. (This amount was subsequently reduced to $27.5 million per year in the 2002-2004 budget.)

Standards of Learning. In the mid-1990s the State Board of Education undertook an initiative to identify what elementary and secondary students are expected to learn, provide a method of determining what has been learned, and encourage teachers to place emphasis on critical areas in the curriculum. Under this "Standards of Learning" (SOL) initiative, students are required to pass subject-area tests in order to move on the next grade, and ultimately in order to graduate from high school.

Beginning with the FY 1999 budget, funding was provided for teacher training programs to promote student success in the SOL testing process. In the FY 2002 budget $48 million was earmarked for teacher training, remediation, and materials under the SOL initiative.

Employee Compensation. A variety of other initiatives have been adopted over the 22-year period of this review, becoming permanent parts of the State budget. Initiatives to increase employee, faculty and teachers' salaries have been among the most important in terms of budget impact. Although no salary enhancements were included in the FY 2002 Appropriation Act, a significant portion of the overall State budget is used (either directly or indirectly) for employee compensation.

State employee compensation has been a focus of funding initiatives over the period of this review. During the 1980s, salary surveys of comparable positions in the private sector were used several times to set and adjust compensation levels of State employees. The economic downturn of the early 1990s saw this practice change to one of occasional salary scale adjustments coupled with an effort to tie additional pay to individual employee performance.

Between FY 1995 and FY 2001, more than $564 million was appropriated for pay increases for classified State employees (this period also saw the introduction of "lag pay" in 1997 and a major reform of employee compensation in 2000) and for State-supported local employees. Over the 22-year period from FY 1981 to FY 2002, the average salary of classified employees increased 157 percent, from $13,445 to $34,546.

On several occasions funds were added to the budgets of higher educational institutions specifically to move faculty salaries closer to the 60th percentile of the institutions' respective peer groups. This level of funding was reached in the 1988-1990 biennium, according to Joint House Appropriations-Senate Finance staff budget summary reports for the respective years, and was achieved again in the 1996-1998 biennium when $79.5 million in general funds was provided for this purpose. Another $72.5 million in general funds was added to achieve this objective again in the 1998-2000 budget.

The State has also contributed toward pay increases for elementary and secondary teachers during the period of this review. In 1996-1998, for example, the Appropriation Act provided $70 million in general funds for this purpose, and in 1998-2000 an additional $97 million in general funds was appropriated for teacher salary increases.

Other Initiatives. A variety of other initiatives totaled nearly $250 million in FY 2002 general funds (GF). As these initiatives became established policy and practice, their costs generally became permanent parts of the budget. The following list indicates the scope and costs of some recent initiatives.

- Reducing class size for kindergarten through third grade ($65.5 million GF for FY 2002)
- Upgrading technology in the public schools ($105 million GF in FY 2002)
- Tuition assistance grants for Virginia residents attending in-state private colleges and universities ($45 million GF in FY 2002)
- Over two dozen new agency codes were added to the State budget between FY 1981 and FY 2001. Some of these represented reorganizations of already-existing State functions, and some constituted new activities. Altogether, these new agency codes received a total of $33.5 million in FY 2001.

Some initiatives are not permanent fixtures in the budget, but tend to recur and required significant funding during the period. Funding of non-State agencies, for example, ranged from $5 million GF in FY 1995 to as much as $44 million GF in FY 2000, before being virtually eliminated in the FY 2002 Appropriation Act. The water quality improvement fund is another example, with funding generally tied to a percentage of general fund budget surpluses. While it received funding annually from FY 1997 through FY 2001, no funding was provided in FY 2002.

Other Factors Contribute to State Spending Growth

Other factors in addition to growth in federal programs help explain some of the growth in Virginia's budget since FY 1981. One factor (noted earlier) is the requirement in the *Constitution of Virginia* that all State spending may occur only as provided by appropriations. One effect of this provision is that funds as varied as child support payments, college tuition, and research grants at universities must first be appropriated by the General Assembly.

These programs are not funded by State taxes, but by money paid by individuals or other organizations for specific services and activities. These include payments from non-custodial parents in the child support program, tuition payments by college students, and research grants from foundations and federal agencies in the case of sponsored research, among other funding sources. Non-general funded programs and activities, as will be discussed in Chapters II and III, contributed materially to State budget growth.

Virginia's budget has grown as a result of many factors, including inflation, population growth, economic growth, State initiatives, federal mandates, and other factors. Not every State agency and program experienced as much growth as suggested by the overall growth in the State budget. Some grew faster during the last 22 years, and some grew much more slowly or were level-funded (in other words, received no budget increases). Some programs and agencies were started, and others were abolished or consolidated.

THE BASIS OF THE STATE BUDGET

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). Consequently, everything in the State budget stems from this review and approval process by the State's elected officials. The *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.

The data used in assessing Virginia budget growth comes from several sources and is available at several levels of aggregation. Financial data is available in the form of appropriations and expenditures. This data is available at the function, program and agency levels of aggregation. The time periods vary for which various levels of appropriation and expenditure 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, 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.

Unless otherwise noted, appropriations as used in this report are the final appropriations approved (voted on and adopted) by the General Assembly. 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, as used in this report (unless otherwise noted), 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 mid-year adjustments to the legislative appropriation. Because detailed expenditure data was not available for early years of the study, this report sometimes uses appropriations as a "proxy" or surrogate for expenditures. Accessing data about expenditures from the 1980s has proven difficult, in part because of the State Records Retention Act, which generally requires agencies to retain such data for no more than three to five years.

Beginning with the 2002 edition of the Comprehensive Annual Report of the Comptroller (CAFR), the State began reporting expenditures by governmental function on a modified accrual basis. Previous editions had reported these expenditures on a "cash" or budgetary basis. This change allowed Virginia's financial reporting to conform to the requirements of the Governmental Accounting Standards Board (GASB). However, it posed a significant problem for the analysis of long-term spending trends, as the new reporting basis describes expenditures and revenues on a different basis. This matter was resolved when the Department of Accounts agreed to continue providing JLARC staff with annual expenditure data on a "cash" or budgetary basis. This data is included in Appendix C.

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, such as 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.*

* * * * *

> *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.*

An *agency* represents the level of operational and budgetary control and administration of State services. Agencies usually include a set of programs, all coming under the purview of an agency head who typically is appointed by the Governor, along with a staff who implement the agency's programs.

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 799, 767, 795, and 711 (for central office, institutions, community corrections, and correctional enterprises respectively) must be combined to arrive at a budget total for the Department of Corrections. In addition, budget codes are sometimes used as a way of entering a new program or activity into the State system and ensuring budget control. Thus, the "personal property tax relief program" (746) and "compensation supplements" (757) are examples of programs (just financial accounts, in reality), which have been assigned a program budget code for administrative convenience.

In keeping with conventional practice in Virginia budget analysis, this report groups agency budget codes into what are logically or operationally a single agency. For instance, the Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS), as commonly discussed, consists of 15 mental health and mental retardation hospitals and training centers, a central administrative component and a grants to localities component, each of which has a separate agency budget code. This report combines these 17 agency budget codes to analyze changes in DMHMRSAS budgets. Another example is combining the College of William and Mary with the Virginia Marine Science Institute agency code to arrive at a total for the College of William and Mary. In 2002 this approach identified 144 State agencies, noted in Appendix D of the JLARC report, *Review of State Spending: June 2002 Update* (House Document 3 (2003)).

This report also separates the personal property tax relief program (746) from the central appropriations agency code total. This permits the car tax relief program to be compared to other state spending priorities, which are commonly considered in terms of agency codes. Thus, in the analysis in chapter II, personal property tax relief is first compared to other agencies, where it exhibits the third largest amount of general fund growth, and then to program budget costs where it had the third largest amount of growth of any budget program.

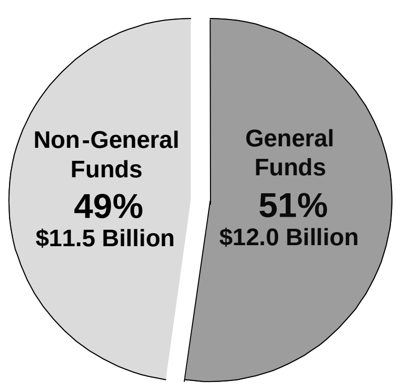
General and Non-General Funds

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 earmarked or restricted to certain specified uses.

General and non-general funds comprised 51 and 49 percent, respectively, of the FY 2002 Virginia budget (Figure 5). This is important because it means that the expenditure of almost half the State budget is determined by the source of funds, not 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 nearly half the budget is determined by factors other than the budget decision-making process.

Figure 5

FY 2002 Appropriations, by Fund



Source: JLARC staff analysis of Appropriation Act.

JLARC REVIEW

This report, the third in the JLARC's series on State spending, describes budget growth as stemming from several factors. These factors include inflation, population and economic growth, increases in the populations served by State programs and agencies, and Virginia-specific factors, such as initiatives and funding decisions, and program and policy decisions within the individual agencies and programs of the State budget.

To conduct this review, JLARC staff interviewed a variety of individuals involved with the State budget process, collected appropriation and expenditure data from a variety of sources, including the Department of Planning and Budget, the Department of Accounts, and the Auditor of Public Accounts, as well as other agencies, and reviewed previous reports and documents pertaining to State spending.

Structured Interviews

JLARC staff have initiated a series of structured interviews to collect information on overall budget trends and to collect agency-specific details. Interviews were conducted with cabinet Secretaries, directors of the Department of Planning and Budget (DPB) and other staff members of DPB, the Auditor of Public Accounts, and the Departments of Accounts and Taxation. In addition, JLARC staff interviewed staff from numerous State agencies in the executive and legislative branches. This interview process will be ongoing as annual updates to the State spending report are required by *Code of Virginia* §30-58.3.

Data Collection

JLARC staff receive annual updates of budget, spending, and debt data from several agencies, including DPB, the Department of Accounts, the Auditor of Public Accounts, the Department of Taxation, and the Department of the Treasury. JLARC staff currently maintain a database including appropriation data at the agency, program and fund level from FY 1983, appropriation data at the agency and fund level from FY 1981, and final adjusted appropriations and expenditures at the agency, program and fund level since FY 1999. Additional data items include certified spending at the functional level, revenues by source, and debt approvals and authorizations, all since FY 1981. Finally, several sources of economic and demographic data have been obtained from various federal agencies such as the Census Bureau and the Bureau of Economic Analysis.

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 pointed out 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 change during the 1980s, for example, is unavailable from many agencies. Turnover among budget staff and in other key positions within agencies also limited the amount of information available for historical purposes. Agency reorganizations, consolidations, eliminations, and additions of agencies, as well as changes in program structure or services further constrain analysis. JLARC staff attempted to supplement information provided by agencies by referring to a variety of documentation noted below.

To facilitate access to the data developed in this review, selected historical appropriations data have been placed on the JLARC website. Currently, this data includes appropriations for the largest State agencies, as well as general fund and nongeneral fund appropriations from FY 1981. This information is available by clicking the "fiscal analysis" and then the "fiscal data" tabs at the JLARC website (http://jlarc.state.va.us).

Document Review

JLARC staff reviewed a variety of documents for this review. These included Appropriation Acts from FY 1978 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 1984 to the present. "State of the Commonwealth" speeches by Virginia Governors were also collected and reviewed for the 22-year study period. Agency-specific and program-specific studies and documents were reviewed, as were reports from legislative and gubernatorial study commissions and panels. A variety of other documents were also collected and reviewed for this report.

REPORT ORGANIZATION

This chapter provided an overview of budget and spending growth between FY 1981 and FY 2002 and identified major reasons for budget growth. Chapter II identifies the largest and fastest growing agencies by appropriations (since FY 1981), and programs by appropriations (from FY 1983). Chapter III reviews growth in expenditures at the functional level and identifies the fastest growing programs by expenditures since FY 1999. Appendixes include the study mandate and tables on appropriations and expenditures.

II. Budget Growth in State Agencies and Programs

The statute that mandates this report asks for the programs and agencies to be identified that grew the most (in dollars) and had the highest growth rates (in percentage terms). This chapter will examine trends in appropriations back to the early 1980s.

Appropriations are the principal source of detailed State financial information readily available as far back as the early 1980s. Detailed expenditure data are not. Final legislative appropriations are used as a proxy for expenditures because they are close to actual expenditures, are familiar to legislative and executive branch decision-makers and the public, and are available at the necessary level of detail (the agency level from FY 1981, and at the program level from FY 1983). In addition, using final legislative appropriations minimizes certain technical problems, such as accounting for transfers between funds (for example, the transfer of general funds into such non-general funds as the higher education operating fund) that complicate the analysis of expenditures.

This chapter identifies appropriation growth for the agencies, budget programs, and Secretariats. It also discusses the largest and fastest growing agencies and programs.

AGENCY BUDGET GROWTH FROM FY 1981 TO FY 2002

The State budget was much smaller in FY 1981 than in FY 2002, but several patterns apparent in FY 1981 persisted throughout the period. One persistent pattern is the concentration of appropriations in a relative handful of agencies, reflecting the long-term continuity of the State's major funding priorities. For example, the four largest-budget agencies in FY 1981 remained the four largest in FY 2002. In both years, these four agencies accounted for 50 percent of all operating funds (Tables 4 and 5). The 20 biggest-budget agencies in FY 1981 (10 percent of the 209 agencies at the time) accounted for 88 percent of the operating budget, and in FY 2002 the 20 largest agencies (14 percent of the 145 agencies in FY 2002) accounted for 85 percent of the budget.

Another pattern is that many of the agencies with the largest budgets in FY 1981 were still among the largest in FY 2002. Fourteen agencies were among the 20 largest budgeted agencies in FY 1981 and again in FY 2002. By FY 2002, five of the largest agencies in FY 1981 dropped off the list of 20 largest agencies: the Department of State Police, the Department of Motor Vehicles, the Department of Rehabilitative Services, the College of William and Mary, and Central Appropriations (defined in this report as an agency). The five new entries on the FY 2002 list (Table 5) included the personal property tax relief program (defined in this report as an agency), George Mason University, the Department of Criminal Justice Services, the Treasury Board, and the Department of Juvenile Justice.

Table 4

Largest Agencies, FY 1981
Total Operating Appropriation ($ in millions)

Rank	Agency	Total Appropriation FY 1981	Percent of Total
1	Department of Education	$1,119.3	19.6%
2	Department of Transportation	971.6	17.0%
3	Department of Medical Assistance Services[1]	436.2	7.6%
4	Department of Social Services	347.0	6.1%
5	Virginia Employment Commission	234.2	4.1%
6	University of Virginia	226.7	4.0%
7	Virginia Commonwealth University[2]	220.8	3.9%
8	Department of Mental Health, Mental Retardation & Substance Abuse Services	219.2	3.8%
9	Department of Alcoholic Beverage Control	206.1	3.6%
10	Virginia Tech	167.9	2.9%
11	Department of Corrections	155.6	2.7%
12	Virginia Community College System	148.1	2.6%
13	Central Appropriations	141.1	2.5%
14	Department of Health	123.8	2.2%
15	Compensation Board	53.5	0.9%
16	Department of State Police	51.4	0.9%
17	Department of Motor Vehicles	51.3	0.9%
18	Department of Rehabilitative Services	48.0	0.8%
19	Supreme Court	47.2	0.8%
20	College of William & Mary	45.8	0.8%
Top 20 Total		**$5,014.8**	**87.7%**
Total Operating Budget		**$5,712.8**	**100.0%**

Note: Excludes capital.

[1]Agency did not exist in FY 1981; item includes predecessor programs (if any) identified in other agencies.
[2]Excludes Medical College of Virginia.

Source: JLARC staff analysis of Chapter 601, 1981 Acts of Assembly.

Table 5

Largest Agencies, FY 2002

Total Operating Appropriation ($ in millions)

Rank	Agency	Total Appropriation FY 2002	Percent of Total
1	Department of Education	$4,522.2	19.3%
2	Department of Medical Assistance Services[1]	3,272.2	13.9%
3	Department of Transportation	2,654.2	11.3%
4	Department of Social Services	1,242.5	5.3%
5	University of Virginia	1,188.0	5.1%
6	Department of Corrections	828.9	3.5%
7	Personal Property Tax Relief[1]	809.4	3.4%
8	Department of Mental Health, Mental Retardation & Substance Abuse Services	761.3	3.2%
9	Virginia Tech	639.1	2.7%
10	Virginia Commonwealth University[2]	550.7	2.3%
11	Compensation Board	504.4	2.1%
12	Virginia Community College System	499.3	2.1%
13	Department of Health	419.4	1.8%
14	Virginia Employment Commission	410.5	1.7%
15	George Mason University	321.6	1.4%
16	Department of Criminal Justice Services[1]	284.7	1.2%
17	Department of Alcoholic Beverage Control	272.5	1.2%
18	Treasury Board	266.6	1.1%
19	Supreme Court	260.1	1.1%
20	Department of Juvenile Justice[1]	225.4	1.0%
	Top 20 Total	**$19,933.0**	**84.9%**
	Total Operating Budget	**$23,483.0**	**100.0%**

Note: Excludes capital.
[1]Did not exist in FY 1981.
[2]Excludes Medical College of Virginia.

Source: JLARC staff analysis of Chapter 814, 2002 Acts of Assembly.

As indicated in the tables, the Department of Education had the largest agency budget in FY 1981 and still did in FY 2002, accounting for over 19 percent of the budget in both years. In both years, the Department of Social Services had the fourth largest agency budget, although its share of total appropriations fell over the period. Five of the top 20 budgets in both years belonged to higher education institutions and agencies.

Some agencies changed rank over the period. For example, the Virginia Department of Transportation (VDOT) dropped from second to third place over the period as it switched places with the Department of Medical Assistance Services (DMAS). By FY 2002, VDOT accounted for a smaller share of the budget, down from 17 percent to 11.3 percent, while DMAS nearly doubled its share from 7.6 percent to 13.9 percent. The Virginia Employment Commission (VEC) held the number five spot in FY 1981. Due to the recession and high unemployment at that time, VEC would have played a more prominent role in appropriations. In FY 2002, the University of Virginia held the number five spot and VEC had dropped to 14th place.

The chief funding priority to appear on the FY 2002 list but not on the FY 1981 list is the personal property tax relief program, which first received funding in FY 1999. Within four years, it held the seventh rank in terms of total appropriations (Table 5).

Another observation about these two "top 20" lists is that, while only one agency had a $1 billion budget in FY 1981, by FY 2002 five agencies exceeded $1 billion in appropriations. Although these are nominal appropriations and do not take account of inflation, population growth, or other factors, they do reflect both the growth in State revenue as well as increased responsiveness to citizen expectations for services and programs.

Agencies with Largest Increases in Total Funding

Overall budget growth was concentrated in the traditional core agencies of State government. Over half the total increase in Virginia's budget was accounted for by only five agencies (out of approximately 144): the Departments of Education, Medical Assistance Services (Medicaid), Transportation, Social Services, and the University of Virginia (Table 6).

The largest 22-year budget increases were in the agencies that represent core State spending responsibilities: education (elementary and secondary as well as higher education), Medicaid, transportation, public safety, and tax relief.

Budget growth in 20 agencies accounted for $15.2 billion or 86 percent of the $17.8 billion total appropriation growth between FY 1981 and FY 2002 (Table 6). Of the 20 agencies with the largest dollar increase in operating appropriations since FY 1981, the Department of Education leads the list with $3.4 billion in additional budget authority in FY 2002. The Department of Medical Assistance Services was second at $2.8 billion. VDOT was third with $1.7 billion, the University of Virginia fourth with $961 million, and the Department of Social Services fifth with $896 million. The personal property tax relief program grew quickly, having exceeded the

Table 6

Agencies with the Most Growth in Total Operating Appropriations

FY 1981 to FY 2002 ($ in millions)

Rank	Agency	Change in Total Appropriation
1	Department of Education	$3,402.9
2	Department of Medical Assistance Services[1]	2,836.0
3	Department of Transportation	1,682.6
4	University of Virginia	961.3
5	Department of Social Services	895.5
6	Personal Property Tax Relief[1]	809.4
7	Department of Corrections	673.3
8	Department of Mental Health, Mental Retardation, Substance Abuse Services	542.1
9	Virginia Tech	471.2
10	Compensation Board	450.9
11	Virginia Community College System	351.2
12	Virginia Commonwealth University[2]	329.9
13	George Mason University	314.8
14	Department of Health	295.6
15	Department of Criminal Justice Services	283.6
16	Treasury Board	238.6
17	Department of Juvenile Justice[1]	225.4
18	Supreme Court	212.9
19	James Madison University	179.6
20	Virginia Employment Commission	176.3
Top 20 Total Growth		**$15,220**
Total Operating Appropriations Growth		**$17,770**

Note: Excludes capital.

[1]Agency did not exist in FY 1981; item includes predecessor programs (if any) identified in other agencies.
[2]Excludes Medical College of Virginia.

Source: JLARC staff analysis of the Acts of Assembly.

total budget for many other agencies. Small percentage changes in the large-budget agencies can easily exceed the size (in nominal dollars) of much larger percentage changes in the small-budget agencies.

Six of the 20 highest growth agencies are higher education institutions (Table 6). These universities and colleges (including VCCS) accounted for almost $2.6 billion or 15 percent of the $17.8 billion increase for all agencies.

Turning to agency growth rates, and focusing on agencies with at least $10 million in appropriations in FY 1981, Table 7 shows the nominal and inflation-adjusted percentage increases for agencies with the highest growth rates.

Some of these fast growing agencies are not large, and can experience modest dollar growth that registers as large percentage increases. An example is the Department of Criminal Justice Services, which grew at a high rate in part because its predecessor (the Division of Justice and Crime Prevention) had a relatively small budget of $15 million in FY 1981. New responsibilities and funding (much of which is pass-through "HB 599" funds) were added over the period, so that by FY 2002 the Department had a budget of $285 million.

Explaining agency-by-agency causes for budget growth is key to understanding total budget growth. In a prior report on State spending, JLARC staff initiated a review of spending growth by agency in the form of agency profiles. These short profiles address the major components of agency spending growth through interviews, surveys and data analysis. Profiles of nine of the largest agencies appeared in *Interim Report: Review of State Spending* (House Document 30 (2002)).

Agencies with the Most Growth in General Funds

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

General fund growth was dominated by a few large agencies. In fact, the 20 agencies with the most general fund growth (14 percent of all State agencies) accounted for 96% of all general fund growth over the 22-year period (Table 8). Just the top three -- the Departments of Education and Medical Assistance Services, and the Personal Property Tax Relief Program -- together accounted for 56 percent of general fund budget growth. Recent annual increases in these large-budget items have often exceeded the total budget for many other agencies.

Topping the list of agencies with the most general fund growth (Table 8) is the Department of Education. Elementary and secondary education is the largest single general fund responsibility of the State. Virginia's matching share for the Medicaid program brings the Department of Medical Assistance Services to the number two position in Table 8. Some factors that have contributed to the high-growth in these agencies are discussed in Exhibit A.

Table 7
Agencies with Highest Rates of Growth in Total Operating Appropriations
FY 1981 to FY 2002

Rank	Agency	Nominal Increase	Inflation-Adjusted Increase
1	Department of Criminal Justice Services[1]	1,816%	868%
2	George Mason University	939%	425%
3	Department of Accounts	867%	388%
4	Compensation Board	842%	376%
5	Treasury Board	832%	371%
6	Department of Juvenile Justice[1]	676%	292%
7	Department of Medical Assistance Services[1]	650%	279%
8	Department of Environmental Quality*	637%	272%
9	Department of Taxation	481%	193%
10	Supreme Court	450%	178%
11	James Madison University	439%	172%
12	Department of Corrections	433%	169%
13	University of Virginia	410%	158%
14	Central Appropriations	404%	155%
15	Mary Washington College	382%	143%
16	Virginia Commonwealth University[2]	379%	142%
17	Longwood University	355%	130%
18	Old Dominion University	344%	124%
19	State Corporation Commission	344%	124%
20	Radford University	322%	113%

Note: Includes only agencies with at least $10 million in appropriations in FY 1981. Excludes capital.

[1]Agency did not exist in FY 1981; item includes predecessor programs (if any) identified in other agencies.

[2]Excludes Medical College of Virginia.

Source: JLARC staff analysis of Acts of Assembly.

Table 8

Agencies with the Most General Fund Appropriation Growth
FY 1981 to FY 2002
($ in Millions, Unadjusted for Inflation)

Rank	Agency	Change in General Fund Appropriation
1	Department of Education	$3,004
2	Department of Medical Assistance Services[1]	1,381
3	Personal Property Tax Relief[1]	809
4	Department of Corrections	664
5	Compensation Board	447
6	Dept. Mental Health, Mental Retardation & Substance Abuse Services	307
7	Department of Accounts	269
8	Department of Criminal Justice Services[1]	235
9	Treasury Board	231
10	Virginia Community College System	220
11	Supreme Court	212
12	Department of Juvenile Justice[1]	183
13	Virginia Tech	168
14	Department of Social Services	139
15	Comprehensive Services for At-Risk Youth and Families[1]	139
16	Virginia Commonwealth University[2]	128
17	Department of State Police	120
18	George Mason University	106
19	University of Virginia	96
20	Department of Health	96
Top 20 Total Growth		**$8,953**
Total General Fund Budget Growth		**$9,342**

Note: Excludes capital.

[1]Agency did not exist in FY 1981; item includes predecessor programs (if any) identified in other agencies.
[2]Excludes Medical College of Virginia.

Source: JLARC analysis of Acts of Assembly.

Exhibit A

Factors Contributing to Budget Growth in Several Large Agencies

Three agencies with the most general fund growth between FY 1981 and FY 2002 were the Departments of Education, Medical Assistance Services, and Corrections (Table 8). The following discussion highlights some key factors contributing to each agency's budget growth.

Department of Education

General fund appropriations for this agency grew by $3 billion. A number of factors contributed to this growth. Elementary and secondary school enrollment grew 12 percent growth over the period, and the number of students receiving special education services increased 54 percent. Additionally, adjustments to the "standards of quality" (SOQs) took place in the 1980s, such as increasing the number of instructional positions funded per 1,000 pupils. Increases in funded salaries and benefit costs for instructional and support staff were also major contributors to budget increases. Although the State-funded teacher salary level in FY 2002 was less than the statewide average salary (and less than the national average), at $37,602 the figure represented a large percentage increase over the estimated State-funded salary level of $13,660 in FY 1981. More students, and more teachers per 1,000 students, and higher salaries for the teachers all combined to increase the State's share of the cost of education. Incentive-based accounts were also implemented over this period.

Department of Medical Assistance Services

DMAS general fund appropriations increased $1.4 billion over the period. Medical inflation is a key factor, increasing 245 percent between 1981 and 2002 – compared to the 98 percent increase in general inflation (as measured by the consumer price index). One recent review indicated that medical inflation accounted for about one-half of Medicaid's budget growth over the long term. Demographics are a key long-term driver of this budget, as spending on the aged and disabled population closely tracks the total agency spending. This population accounted for about one-third of all Medicaid recipients in FY 2002, and for about 70 percent of total Medicaid spending. The over-85 population was the fastest growing segment of Virginia's population over the period, growing 112 percent between the 1980 and 2000 censuses. In addition, the rate at which the federal government matches State dollars in the Medicaid program varies annually based on factors such as per capita income. The federal match rate in 1980 was 56.5 percent; by 2002 it had declined to 51.45 percent, requiring more State dollars in the program. Provider rate increases and expansions of services have also contributed to budgetary growth.

Department of Corrections

The main reason the Department of Corrections' general fund budget increased $664 million and had the highest general fund growth rate (Table 9) was the 271 percent increase in the inmate population, from 8,373 inmates in 1981 to 31,055 in 2002. A substantial prison construction program added over 25,000 beds during the period. The operating cost for these new facilities was $424 million in FY 2002. Sentencing reforms enacted in the mid-1990s resulted in more inmates (especially violent and repeat offenders) staying longer in prison, and by the 2000-2002 timeframe these factors were beginning to increase the overall inmate population. Additionally, the population served by community corrections more than doubled between 1989 (the first year for which this data is available) and 2002, to nearly 44,000.

Personal property tax relief saw the third largest amount of general fund appropriation growth, even though it is a relatively new governmental activity, and is 100 percent general funded. The Department of Corrections had the fourth largest increase in terms of general fund budget growth. The Virginia Department of Transportation, which was in sixth place for general fund growth through FY 2001, dropped out of the top 20 in FY 2002 since infusion of general funds for the Virginia Transportation Act by the 2000 General Assembly was intended to be one-time in nature.

A trio of public safety-related agencies is also in the top ten. These include the Department of Corrections at fourth place, the Compensation Board (which provides funding for local sheriffs and other constitutional officers as well as local and regional jails) at fifth place, and the Department of Criminal Justice Services at eighth. The Department of Mental Health, Mental Retardation and Substance Abuse Services ranked sixth. Due to an increasing level (though not percentage) of debt financing, the Treasury Board falls in at the number nine spot. Five higher education agencies are listed in the next ten positions.

Reflecting the variety of uses of general funds, there is little consistency in the pattern of growth rates of relatively large (with general fund appropriations of more than $10 million in FY 1981) general-funded agencies (Table 9). Two public safety-related agencies had the highest rates of growth in general funds: the Department of Corrections and the Compensation Board. Increases in debt financing pushed the Treasury Board into third place. Federally-mandated program expansions, as well as prescription drug and other health care cost increases, help explain the high (fourth place) rank of the Department of Medical Assistance Services.

Agencies with the Most Growth in Non-General Funds

Non-general funds are earmarked for a specific program or objective. Non-general funds typically originate from specific taxes or fees paid by the users of a service, such as motor fuel taxes for highway construction and maintenance, or tuition payments for higher education. Federal funds, which are provided only for specific purposes, also account for a large share of non-general funds.

As was true for general fund growth, non-general fund growth is concentrated in a few agencies. Agencies with the most non-general fund budget growth over the period are listed in Table 10. In dollar terms the top five agencies account for 60 percent of all the non-general fund budget growth since FY 1981 (Table 10).

The Virginia Department of Transportation had the largest amount of non-general fund growth. This reflects growth in revenues from the motor fuels taxes as well as increasing federal transportation funds. The agency with the second largest nongeneral fund increase is the Department of Medical Assistance Services. The federal share of Medicaid spending is roughly half of the total. Four of the ten high growth agencies, in terms of non-general funds, were universities: the University of Virginia (3rd), Virginia Commonwealth University (6th), Virginia Tech (7th), and George Mason University (10th). Non-general funds within the universities consist mainly of tuition and fee payments by students, sponsored (federal) research, and auxiliary enterprise revenue.

Table 9

Agencies with Highest General Fund Appropriation Growth Rates
FY 1981 to FY 2002

Rank	Agency	Nominal Rate of Increase	Inflation-Adjusted Rate of Increase
1	Department of Corrections	876%	444%
2	Compensation Board	743%	376%
3	Treasury Board	697%	353%
4	Department of Medical Assistance Services[1]	635%	322%
5	Department of Juvenile Justice[1]	531%	269%
6	George Mason University	489%	248%
7	Supreme Court	351%	178%
8	James Madison University	238%	121%
9	Radford University	230%	117%
10	Department of Education	204%	109%
11	Department of Environmental Quality[1]	191%	97%
12	Old Dominion University	172%	88%
13	Department of Mental Health, Mental Retardation and Substance Abuse Services	142%	73%
14	Department of Taxation	141%	72%
15	Department of State Police	140%	72%
16	College of William and Mary	126%	65%
17	Virginia Community College System	124%	64%
18	Virginia Commonwealth University[2]	117%	60%
19	Norfolk State University	107%	55%
20	Virginia Tech	87%	45%

Note: Includes only agencies with at least $10 million in general fund appropriations in FY 1981. Excludes capital.
[1]Agency did not exist in FY 1981; item includes predecessor programs (if any) identified in other agencies.
[2]Excludes Medical College of Virginia.

Source: JLARC staff analysis of Acts of Assembly.

Table 10

Agencies with the Most Non-General Fund Appropriation Growth

FY 1981 to FY 2002

($ in Millions, Unadjusted for Inflation)

Rank	Agency	Change in Non-General Fund Appropriation
1	Virginia Department of Transportation	$1,629
2	Department of Medical Assistance Services[1]	1,455
3	University of Virginia	859
4	Department of Social Services	757
5	Department of Education	399
6	Virginia Commonwealth University[2]	308
7	Virginia Tech	303
8	Department of Mental Health, Mental Retardation and Substance Abuse Services	235
9	Department of Health	200
10	George Mason University	185
11	Virginia Employment Commission	177
12	Virginia Community College System	131
13	James Madison University	126
14	Department of Motor Vehicles	125
15	College of William and Mary	87
16	Old Dominion University	80
17	Department of Alcoholic Beverage Control	67
18	Department of Rehabilitative Services	62
19	State Corporation Commission	58
20	Norfolk State University	42
Top 20 Total Growth		**$7,285**
Total Non-General Fund Budget Growth		**$8,444**

Note: Includes only agencies with at least $10 million in NGF appropriation in FY 1981. Excludes capital.

[1]Agency did not exist in FY 1981; item includes predecessor programs (if any) identified in other agencies.
[2]Excludes Medical College of Virginia.

Source: JLARC staff analysis of Acts of Assembly.

Rounding out the list of ten agencies with the highest rates of non-general fund growth are the Department of Education with substantial (but not large in percentage) federal funding, the Department of Mental Health, Mental Retardation and Substance Abuse Services, which receives significant third-party payments as well as federal funds, and the Department of Health, also a recipient of federal funds for nutrition and other services.

Of the agencies with high growth *rates* (in percentage terms) in non-general funds, it is again clear that higher education is a major source of budget growth (Table 11). Of the ten agencies with the highest non-general fund growth rates, seven are colleges and universities. The Department of Medical Assistance Services is third on the list reflecting overall growth in the cost of health care. The State Corporation Commission, which has the sixth highest growth rate in non-general funds, had a $72 million budget in FY 2002, remaining relatively small throughout the period.

Patterns reflected in the preceding tables document the long-term growth of the Virginia budget. In recent years, there have been some shifts in the source of agency growth.

BUDGET GROWTH BY PROGRAM

Between FY 1983, the first year for which appropriation data are available at the budget program level, and FY 2002, Virginia's operating budget grew $17 billion. Growth in 20 programs totaled $13.6 billion, accounting for 76 percent of total budgetary growth (Table 12). This growth was dominated by core activities of education, health care, and transportation.

Three programs grew more than $1 billion over the period: medical assistance services, State aid for public education (Standards of Quality), and higher education instruction and support. Dollar amounts shown are the lump-sum differences in appropriation in FY 2002 over and above the FY 1983 appropriation.

Table 12 also identifies the share of total budget growth represented by each program. For instance, the medical assistance services program grew $2.7 billion over the period, accounting for 16 percent of total budget growth.

Five of the ten large-growth budget programs were related to education. These five (including financial assistance for public education -- SOQ), higher education instruction & support, financial assistance for special State revenue sharing, higher education auxiliary enterprises, and higher education – financial assistance for education and general services accounted for $5.365 billion or 32 percent of the 20-year growth.

One of the largest increases in Table 12 was for a program that was initiated late in the period – the personal property tax relief program, first funded (as noted elsewhere in this report, with 100 percent general funds) in FY 1999. It quickly grew to be one of the largest programs in the budget.

Table 11

Agencies with Highest Growth Rates in Non-General Fund Appropriations

FY 1981 to FY 2002

Rank	Agency	Nominal Increase	Inflation-Adjusted Increase
1	George Mason University	1,323%	669%
2	Department of Medical Assistance Services[1]	486%	247%
3	University of Virginia	465%	236%
4	Virginia Commonwealth University[2]	450%	228%
5	James Madison University	404%	205%
6	Old Dominion University	344%	175%
7	State Corporation Commission	306%	156%
8	Virginia Tech	288%	147%
9	College of William and Mary	235%	120%
10	Department of Social Services	232%	118%
11	Radford University	215%	110%
12	Department of Game & Inland Fisheries	201%	102%
13	Department of Health	175%	90%
14	Virginia Community College System	161%	82%
15	Department of Mental Health, Mental Retardation & Substance Abuse Services	155%	79%
16	Department of Education	144%	74%
17	Department of Motor Vehicles	143%	73%
18	Department of Criminal Justice Services[1]	143%	73%
19	Norfolk State University	126%	65%
20	Virginia Department of Transportation	66%	35%

Note: Includes only agencies with at least $10 million in NGF appropriation in FY 1981. Excludes capital.

[1]Agency did not exist in FY 1981; item includes predecessor programs (if any) identified in other agencies.
[2]Excludes Medical College of Virginia.

Source: JLARC staff analysis of Acts of Assembly.

Table 12

20 Largest Program Increases
All Funds, FY 1983 to FY 2002

Rank	Program	Change in Appropriations ($ in Millions)	Percentage of Total Growth
1	Medical Assistance Services (Medicaid)	$2,703	16%
2	Financial Assistance for Public Education (SOQ)	1,899	11%
3	Higher Education Instruction & Support	1,616	10%
4	Highway System Acquisition & Construction	922	5%
5	Financial Assistance for Special State Revenue Sharing (Local Share of Sales Tax)	899	5%
6	Personal Property Tax Relief*	809	5%
7	Highway System Maintenance	585	3%
8	Higher Education Auxiliary Enterprises	515	3%
9	Child Support Enforcement Services	491	3%
10	Higher Education – Financial Assistance for Education & General Services	436	3%
11	State Health Services	432	3%
12	Secure Confinement	400	2%
13	Crime Detection, Investigation, Apprehension	400	2%
14	Financial Assistance for Individual & Family Services	251	1%
15	Pre-Trial, Trial, & Appellate Processes	232	1%
16	Bond and Loan Redemption & Retirement	226	1%
17	Employment Assistance Services	216	1%
18	Administrative & Support Services, Administration of Justice	201	1%
19	Financial Assistance to Localities – General	182	1%
20	Financial Assistance for Public Education (Categorical)	177	1%
Top 20 Total Increases		**$13,592**	**80%**
Grand Total Operating Budget Increases		**$17,006**	**100%**

Note: Excludes capital.
*Program newly established during the period.
Source: Acts of Assembly, DPB, JLARC staff analysis.

Another program, child support enforcement, grew by $491 million over the period, the ninth highest growth rate. In the early 1980s, the support enforcement budget was under $5 million. One key to this program's long-term growth was the mid-1980s decision to designate the Department of Social Services as Virginia's child support enforcement agency and the subsequent transfer of 60,000 to 70,000 non-public assistance cases from the courts to the Department. At about the same time, support payments from non-custodial parents began flowing through the State budget, contributing significantly to the program's growth. For example, child support collections were not included in the FY 1981 budget, and by FY 1991 they totaled $148 million. In FY 2002, these payments totaled $486 million.

GROWTH IN SECRETARIAL BUDGETS

The Secretarial system in Virginia was established by the General Assembly in 1972 and consisted of six Secretaries broadly reflecting the major functions of the Executive branch. The system was set in place to improve the Governor's ability to manage the size and scope of State government. Over the years, the responsibilities of the Secretaries have been amplified by statute and executive orders. Each Governor has had broad latitude to define the Secretaries' roles and responsibilities. The General Assembly has also altered the structure and alignment of the Secretarial system by merging, separating, and creating Secretariats.

All but one of the Secretaries have broad budgetary duties, with statutory language requiring them to direct the formulation of a comprehensive budget for their respective areas and agencies. The Secretary of Education has more limited budgetary responsibilities, with no statutory role over the budgets of the institutions of higher education, community colleges, or other education agencies. Instead, the statutes state that the Education Secretary "may direct the preparation of alternative policies, plans and budgets for education," and is to formulate a comprehensive budget for cultural affairs.

A review of the budget trends by Secretarial area must take into account the changing alignment of agencies over time. As noted in a recent JLARC special report on the Secretarial system, the number of agencies in each Secretarial area has varied as programs and activities have been initiated or realigned. This is a key explanation for some of the variation from one year to the next in some Secretarial budgets. A recent example was the transfer in FY 2002 of the Comprehensive Services for At-Risk Youth and Families agency and its $171 million annual budget out of the Education Secretariat into the Health and Human Resources Secretariat.

This review of Secretarial budgets starts in FY 1991 because the Secretarial system stabilized at eight Secretaries at that time. In the period from FY 1981 to FY 1990 there were six major realignments. Since FY 1991, the principal change was the addition in FY 1999 of a Secretary of Technology, which pulled five small-budget agencies out of two other Secretariats. (Appropriations by Secretarial area from FY 1981 through FY 2002 are listed in Appendix B.)

Keeping in mind that some of the budgetary changes by Secretarial area are due to the realignment of agencies, Table 13 shows appropriation (budget)

Table 13

Budget Growth by Secretarial Area
FY 1991 to FY 2002

Secretarial Area	FY 2002 Appropriation (in millions)	Nominal Increase from FY 1991	Inflation-Adjusted Increase from FY 1991
Finance	$659	381%	264%
Health and Human Resources	$6,079	106%	56%
Public Safety	$1,911	94%	47%
Education	$8,968	70%	29%
Transportation	$3,034	70%	29%
Administration	$578	59%	21%
Natural Resources	$246	54%	16%
Economic Development/Commerce & Trade	$713	37%	3%
Technology[1]	$22	N/A	N/A

Note: Change in total operating appropriations from FY 1991 – FY 2002 was 86%.

[1]Technology Secretariat was established in FY 1999.

Source: JLARC staff analysis of Appropriation Acts.

growth by Secretary from FY 1991 through FY 2002. The Finance Secretariat is substantially ahead of the others in terms of percentage budget growth over the period.

Growth in the Finance Secretariat is primarily due to two things: growth in bond payments, which are appropriated to the Treasury Board ($256 million in FY 2002 compared to $43 million in FY 1991), and the budgetary practice, adopted in FY 1996, of placing appropriations for the revenue stabilization fund in a Finance agency's budget. In FY 2002, for example, $187 million or 69 percent of the Department of Accounts' appropriation was for this item. Deducting these amounts from both the respective FY 1991 and FY 2002 agency budgets, the percentage growth for the Finance Secretariat was 130% instead of 381% -- still ahead of the other Secretarial areas, but much less. Additionally, this Secretariat had the smallest total appropriation in FY 1991 at $137 million and remained among the smaller-budget Secretariats in FY 2002, despite the high growth rate.

At the other end of the scale, the Commerce and Trade Secretariat (the name was changed from Economic Development in FY 1994) received total appropriation increases only slightly above the rate of inflation during the period. Most of the $191 million increase for this Secretariat came in two agencies: the Virginia Employment Commission, which went from $311 million in FY 1991 to $411 million in FY 2002) and the Department of Housing and Community Development, which saw a budget increase from $39 million in FY 1991 to $108 million in FY 2002.

CONCLUSION

Appropriations grew by $17.8 billion between FY 1981 and FY 2002, a 312 percent increase before adjusting for inflation. Growth was concentrated in just a few budget items. Five agencies (out of 144) accounted for 50 percent of this overall growth: the Departments of Education, Medical Assistance Services, Transportation, Social Services, and the University of Virginia. In terms of general fund growth, four agencies accounted for 63 percent of the 22-year growth: the Departments of Education, Medical Assistance Services, and Corrections, and the personal property tax relief program. Six budget programs (out of approximately 250) accounted for 52 percent of the overall appropriations growth over the period.

While a variety of factors including inflation, a growing population and economy, and recent State initiatives account for much of the increase, the fact that a few large agencies and programs dominated the State budget over 22 years reflect core spending priorities of the State. The personal property tax relief program is a recent addition to the core spending priorities, as it has grown rapidly. By FY 2002 it was the seventh-largest item in the State budget, and accounted for five percent of the 20-year growth, even though it was first funded in FY 1999.

III. Spending Growth

State spending increased 350 percent in nominal terms, and by 127 percent in inflation-adjusted terms, between FY 1981 and FY 2002. Increases in spending at the broad functional level varied considerably, from an increase of $598 million for the resource and economic development function, to a $5.8 billion increase for the education function. The eight broad governmental functions were established when Virginia adopted program budgeting in the 1970s, and continue to be used in the State's budget process. These functions include administration of justice, capital projects, education, enterprises, general government, individual and family services, transportation, and resource and economic development.

Two of these broad functional areas – education, and individual and family services -- accounted for 60 percent of the total spending growth since FY 1981. The State's spending priorities on core education, transportation, and social service programs proved remarkably stable. In addition, some high growth rate programs such as personal property tax relief have become ongoing priorities, while other programs (such as employment services and bond payments) both grew and declined during the period.

Chapter II discussed *appropriations* growth. This chapter discusses *spending* growth since FY 1981 for the broad governmental functions, notes the effects of the revenue stabilization fund and the personal property tax relief program on overall spending growth, and identifies the largest budget programs and the programs with the highest rates of spending growth since FY 1999.

Expenditure data is available from FY 1981 only for the eight broad governmental functions (Appendix C), and includes spending on capital projects as well as deposits into the revenue stabilization fund and funding of the personal property tax relief program. Agency and program-level spending data is available only from FY 1999.

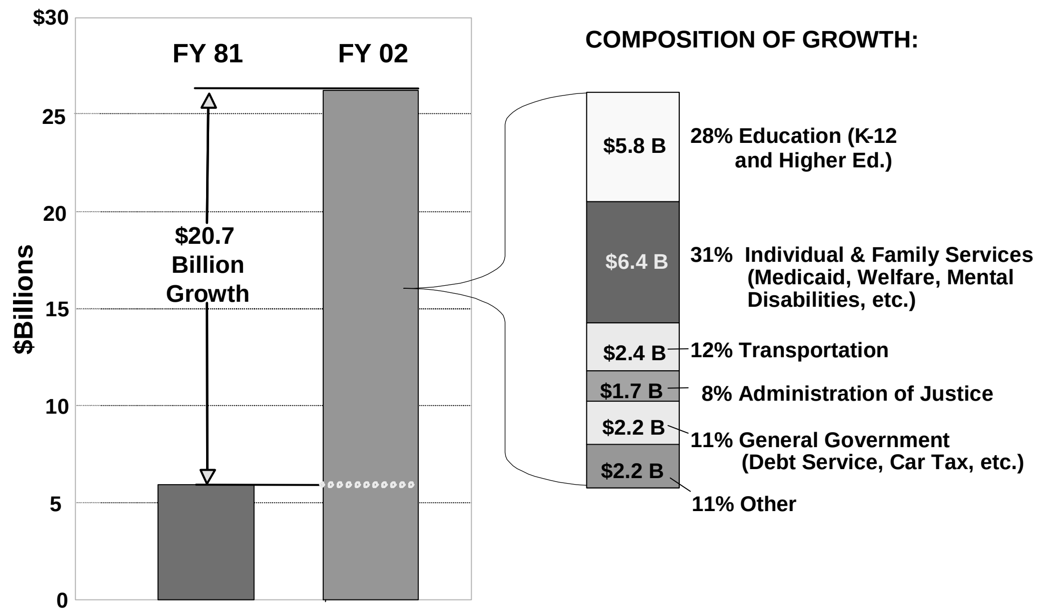
SPENDING GROWTH BY FUNCTIONAL AREA

Total State spending increased $20.7 billion, from $5.9 billion in FY 1981 to $26.6 billion in FY 2002. The broad functional area of individual and family services saw the largest increase over the period, $6.4 billion, or 31 percent of the total growth (Figure 6). The education function, which includes the institutions of higher education as well as elementary and secondary, saw the second-largest share of the growth – with an increase over the period of $5.8 billion, or 28 percent of total State spending growth. This was followed by transportation (up $2.4 billion), general government (up $2.3 billion), and administration of justice (up $1.7 billion). The "other" category in Figure 6 includes enterprises (up $1.1 billion), resource and economic development (up $598 million), and capital projects (up $308 million).

Figure 6

Composition of State Spending Growth From FY 1981 to FY 2002

(Total Expenditures on Budgetary Basis)



Source: Comprehensive Annual Financial Reports, 1981-2002, Department of Accounts.

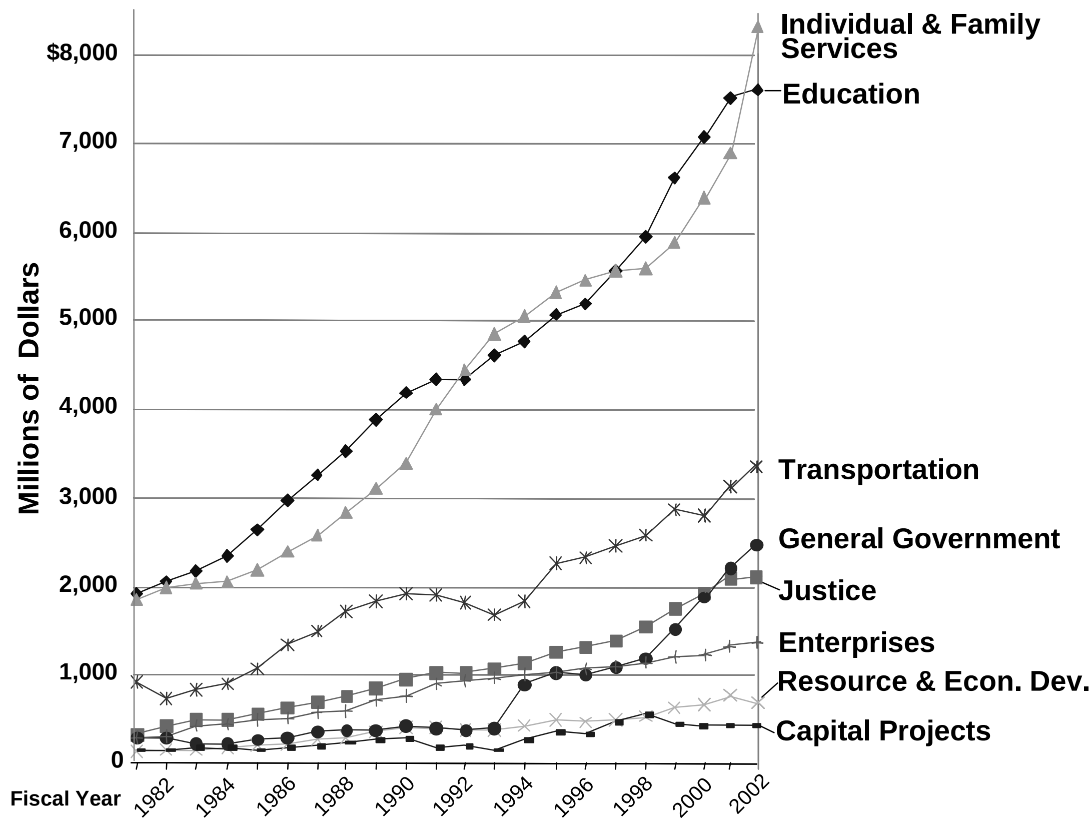
The share of State spending accounted for by the eight functions ranged from as low as two percent in the case of capital projects, to as high as 31 percent for individual and family services. The two largest functional areas, education and individual and family services, accounted for 60 percent of total FY 2002 spending.

Figure 7 tracks functional spending year by year over the period, and makes clear that spending on two functional areas -- education, and individual and family services -- dominated State spending. Over most of the 22-year period, spending on education outpaced spending on all other functions. However, individual and family services spending exceeded education spending for several years in the early to mid-1990s, and again in the final year of the period, FY 2002.

Total spending on individual and family services moved from second to first in FY 2002 largely as a result of three actions taken in FY 2002 totaling $900 million: Virginia received a $501 million one-time federal “loophole” payment involving nursing homes owned by localities that was added to DMAS’s budget; $232 million (all funds) was added to the Department of Medical Assistance Services (DMAS) for caseload growth and cost increases; and the $170 million budget of the Comprehensive Services Program for At-Risk Youth and Families was transferred from the Secretary of Education into the Health and Human Resources secretariat. Together with the slowed growth of new funds in education during FY 2002, these actions combined to move individual and family services spending into first place.

Figure 7

Expenditures by Functional Area, FY 1981-FY 2002



Source: Comprehensive Annual Financial Reports, 1981-2002, Department of Accounts.

The transportation function remained in 3rd place in overall spending throughout the 22-year period. Administration of justice moved down from 4th to 5th, trading places with general government, which grew due to the personal property tax relief program begun in FY 1999.

Adjusting for Population Growth and Inflation

When adjusted for population growth and inflation, total State spending increased 70 percent over the 22-year period (Table 14). Four functional areas grew faster than this, including general government (up 231 percent), followed by administration of justice (up 130 percent), resource and economic development (up 93 percent), and enterprises (up 82 percent). The slower growing functional areas were capital projects (up 11 percent), transportation (up 37 percent), individual and family services (up 68 percent), and education (up 52 percent).

Annual changes in total spending are shown in Figure 8. Total unadjusted spending increased each year between FY 1981 and FY 2002 (Figure 8 bars). Annual increases exceeded $1.0 billion per year in six recent fiscal years: 1994, 1995, 1999, 2000, 2001, and 2002.

Table 14

Spending Change by Function

FY 1981 to FY 2002
(Dollars in Millions)

Function	**FY 1981 Spending** (unadjusted[1])	**FY 2002 Spending** (unadjusted[1])	**Dollar Change** (unadjusted[1])	**Percent Change** (PCIA[2])	**Annual Average Percent Change** (PCIA[2])
General Government	$290	$ 2,546	$2,256	231%	8.1%
Administration of Justice	339	2,069	1,730	130%	4.2%
Resource and Economic Development	145	743	598	93%	3.5%
Enterprises	285	1,375	1,090	82%	3.2%
Individual and Family Services	1,853	8,275	6,422	68%	2.6%
Capital Projects	158	466	308	11%	2.6%
Education	1,916	7,742	5,826	52%	2.1%
Transportation	924	3,359	2,435	37%	2.1%
Total	$5,909	$26,575	$20,666	70%	2.6%

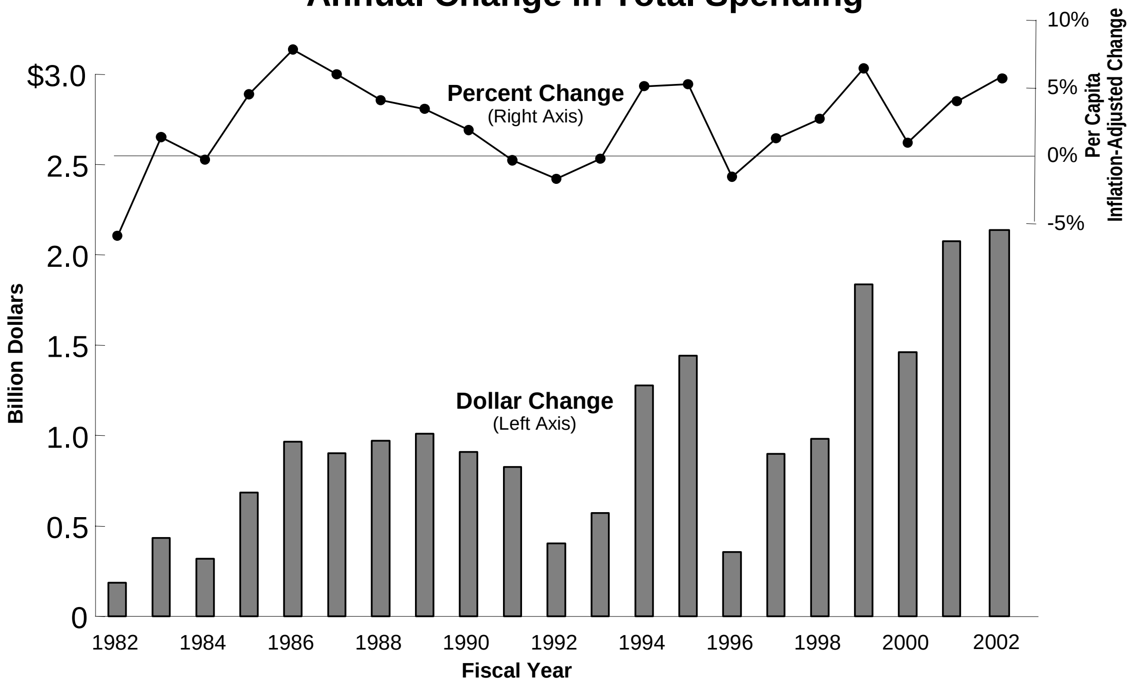
[1]Unadjusted means not adjusted for either inflation or population growth.
[2]PCIA means per-capita, inflation-adjusted.

Source: JLARC staff analysis of expenditures in the respective Comprehensive Annual Financial Reports issued by the Department of Accounts.

Adjusting these values for population growth and inflation indicates a more complicated pattern (Figure 8 line). In real, inflation-adjusted terms, a negative or zero growth rate occurred in six of the past 22 fiscal years. Real spending decreased in three fiscal years: 1982, 1992 and 1996. A near-zero percent growth rate occurred in three fiscal years: 1984, 1991 and 1993. These flat or negative growth years coincide with decreases in revenue and their associated economic downturns in the early 1980s and early 1990s.

Per-capita inflation-adjusted spending grew by one percent in fiscal years 1983, 1997 and 2000. Relatively rapid increases – those over five percent – occurred in six fiscal years: 1985, 1986, 1987, 1994, 1995, and 1999.

Figure 8
Annual Change in Total Spending



Source:

STATE SPENDING AND TWO LARGE INITIATIVES

Two Virginia initiatives had a significant effect on State general fund spending over the past decade: the revenue stabilization fund and the personal property tax relief program. This section examines the effects of these initiatives on overall spending trends.

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 in a 1992 amendment to the *Constitution of Virginia*. The first appropriation to the fund occurred in FY 1995. The fund operates in a manner similar to an escrow account, in that deposits made into the fund are earmarked or set aside on the books of the Comptroller. Deposits are not paid out or expended in the usual sense, but rather are reserved (along with interest) to be used at a future time.

This feature distinguishes the revenue stabilization fund from all other operating appropriations, which must be spent during the biennium. The revenue stabilization fund is more like a savings account for the Commonwealth, which can be accessed only under very limited conditions specified in the *Constitution of Virginia*. Thus, deposits into the fund commenced in FY 1995, although conditions permitting withdrawal did not occur until FY 2002. Conditions for withdrawal of funds essentially require a substantial shortfall between forecasted general fund revenue and appropriations. Withdrawals in any one year are capped (again, by language in the *Constitution of Virginia*) at one-half of the balance in the fund, and at one-half the difference between general fund appropriations and the general fund revenue forecast. Deposits and withdrawals are shown in Table 15.

Due to the fact that payments into the fund are not expenditures in the usual sense, and given the size of the annual deposits, it makes sense to separate out the deposits into the fund and examine the impact on the long-term spending trend.

Table 15

Revenue Stabilization Fund
Deposits & Withdrawals
(Dollars in millions)

FY	Deposits	Withdrawals
1995	$79.0	--
1996	--	--
1997	66.6	--
1998	58.3	--
1999	123.8	--
2000	194.1	--
2001	103.3	--
2002	187.1	$467.0
2003	--	245.9
2004	--	128.5

Note: Deposits are made with general funds.
Source: JLARC staff analysis of Appropriation Acts.

Personal Property Tax Relief Program

A second major initiative is the personal property tax relief program, also called the “car tax” program. This program was approved by the 1998 General Assembly and received the first appropriation for FY 1999. As displayed in Table 16, this program quickly grew to be a large budget item.

Appropriations to and expenditures from this program are also different from those to other State agencies and activities, because these State funds are used as tax relief for individuals who own and are taxed on vehicles up to $20,000 in value. Although categorized for State accounting purposes as financial assistance to localities, the intent of the program is to reduce property taxes paid by individual vehicle owners. The result of the program is to reduce the amount of taxes vehicle owners must pay to their local governments, while compensating the local governments for the lost revenue.

Table 16

Personal Property Tax Relief Program

FY	Percent Phaseout*	Expenditure (in millions)
1999	12.5	$181.3
2000	27.5	322.1
2001	47.5	603.7
2002	70	825.5

*Of the first $20,000 of vehicle value. Vehicles valued at $1,000 or less are reimbursed 100%.

Note: Expenditures are general funds.

Source: JLARC staff analysis of Appropriation Acts.

Adjusting for the Impact of These Two Large Initiatives

These two initiatives have had a significant effect on State spending because they involve large dollar amounts. Although they are not "spending" in the usual sense, it is nevertheless useful to see their effects on overall State spending trends.

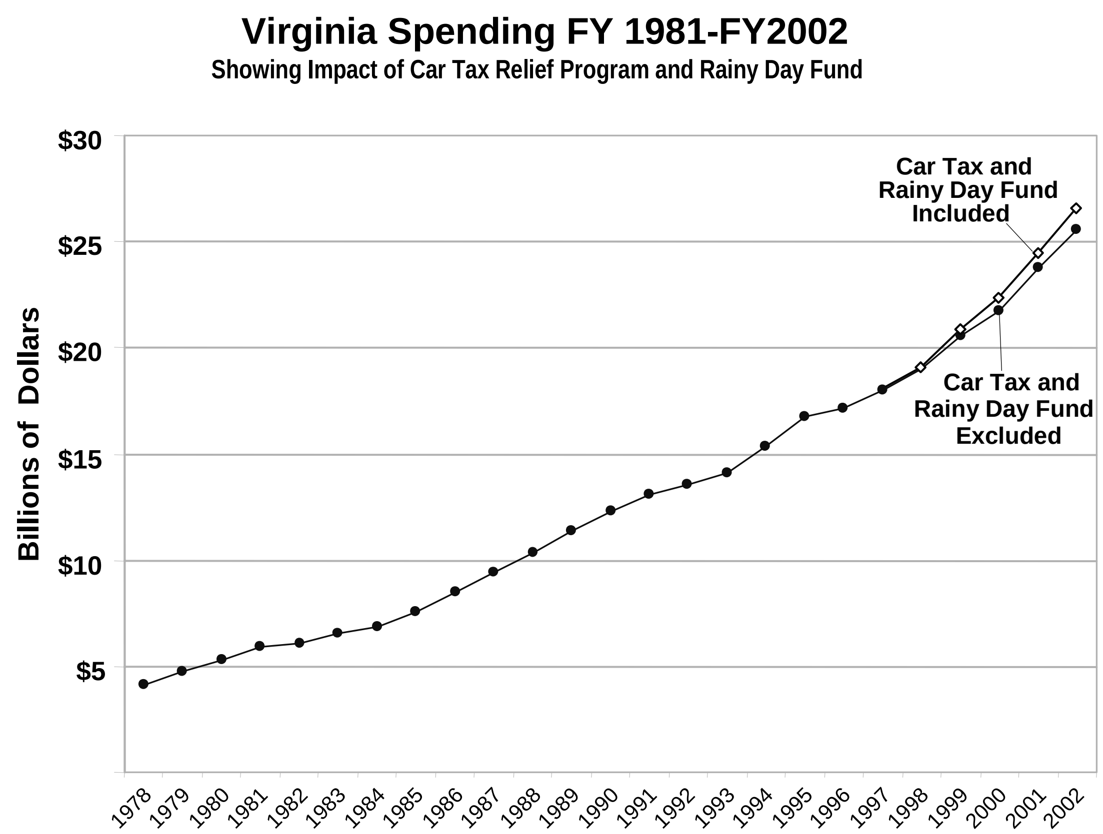
Figure 9 illustrates the effect of subtracting these two items from total State expenditures. Taking out these two items reduces the FY 1981 – FY 2002 growth rate from 350 percent to 300 percent, and reduces the average annual growth rate from 7.5 percent to 7.3 percent.

The effect on spending of these two programs remains significant after controlling for inflation and population growth throughout the period (Figure 10). Although inflation and population growth account for much of the overall growth in State spending over the 22-year period from FY 1981 to FY 2002, the two large initiatives also help explain some of the growth. The average annual real per-capita growth over the period was 2.6 percent, and 2.4 percent after controlling for the revenue stabilization deposits and the personal property tax program.

SPENDING GROWTH IN BUDGET PROGRAMS SINCE FY 1999

A review of spending growth in the approximately 250 programs that make up the Virginia budget indicates that growth rates vary considerably across programs, and that a few large programs dominate spending in Virginia. This variation contributes to the spending patterns seen at the broad governmental function level.

Figure 9



Source: Appropriation Acts, 1978-2003, Department of Accounts.

A key constraint in analyzing Virginia spending data at the program level is that such information is readily available only since FY 1999. Data is not available to examine longer-term spending trends at the budget program level.

Largest and Fastest Growing Programs

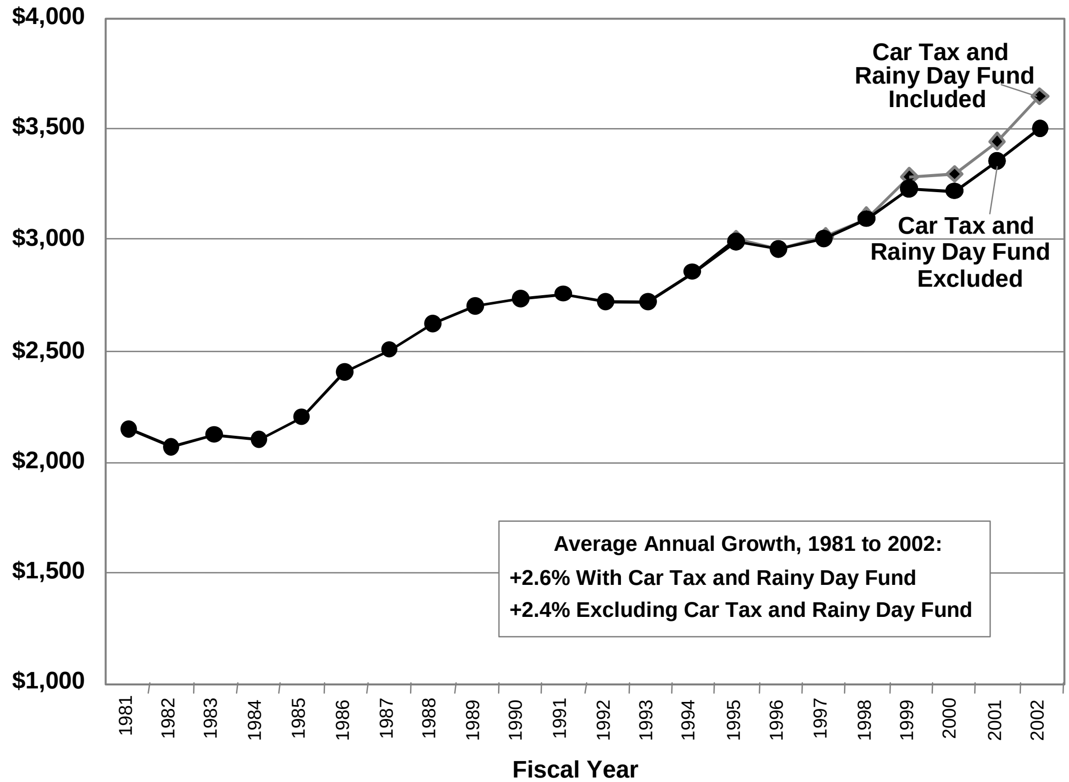
Two-thirds of State spending, and three-quarters of the four-year growth in State spending, are accounted for by the 20 budget programs listed in Table 16. The four budget programs with more than $1 billion in expenditures were the core programs of Medicaid, education, highway construction, higher education, and employment assistance.

As noted previously, the State's major spending priorities have remained fairly stable over time. Eighteen of the 20 programs with the most expenditures in FY 2002 (Table 17) were within three places of their FY 1999 rank, for example, and special circumstances help explain the growth of the two that changed more. Employment assistance services moved from twelfth rank in FY 1999 to fifth rank in FY 2002, due to an increase in the duration and the maximum benefit amounts, actions taken in the wake of the terrorist attacks on September 11, 2001. The other program was the personal property tax relief program, which was the 26th largest

Figure 10

Virginia Spending Per Capita, FY 1981-FY 2002

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



Source: Comprehensive Annual Financial Reports, 1981-2002, Department of Accounts.

budget program in FY 1999. By FY 2002 it had moved to eighth place in total spending as the phaseout of the tax continued.

As shown in Table 18, the medical assistance services (Medicaid) program showed the largest total dollar growth over the FY 1999 – FY 2002 period, and accounted for the largest share of spending growth. Medicaid accounted for 21 percent of the total spending growth between FY 1999 and FY 2002.

The second largest spending increase over this four-year period was in the personal property tax relief program. This program was ramping up during this period, having received its first appropriation in FY 1999. It not only accounted for the second largest amount of total growth11 percent or $645 million – but also had the highest growth rate among the larger budget programs, with a 356 percent growth rate between FY 1999 and FY 2002.

The third largest dollar growth program was employment assistance services, which increased $531 million over the four years. State funding for the Standards of Quality (SOQ) had growth of $376 million over the period, the fourth high-

Table 17

Budget Programs With the Most Expenditures

FY 2002

(All funds, $ in millions, not adjusted for inflation)

Rank	Program Name	FY 2002	Growth Since FY 1999
1	Medical Assistance Services	$3,680	$1,217
2	Financial Assistance for Public Education (Standards of Quality)	2,692	376
3	Highway System Acquisition & Construction	1,640	199
4	Higher Education Instruction	1,201	115
5	Employment Assistance Services	925	531
6	Financial Assistance for Public Education – Special State Revenue Sharing (Sales Tax)	914	114
7	Highway System Maintenance	843	87
8	Personal Property Tax Relief	826	645
9	State Health Services	804	95
10	Higher Education – Education & General Services	683	177
11	Personnel Management Services (State Employee Health Insurance Administration)	673	119
12	Higher Education Auxiliary Services	633	89
13	Child Support Enforcement Services	528	142
14	Crime Detection, Investigation, & Apprehension	474	61
15	Financial Assistance for Public Education (Categorical)	469	154
16	Secure Confinement	449	77
17	Higher Education Academic Support	345	71
18	Administration & Support – Individual & Family Services	310	23
19	Higher Education Institutional Support	309	38
20	Pre-Trial, Trial, Appellate Services	296	55
	Total of 20 Largest Programs	**$18,694**	**$4,385**
	Percentage of Total	**70%**	**77%**

Source: JLARC staff analysis of expenditure data.

Table 18

Programs with Highest Expenditure Growth
FY 1999 to FY 2002

Rank	Program	Spending Growth (Dollars in Millions)	Share of Spending Growth
1	Medical Assistance Services (Medicaid)	$1,217	21%
2	Personal Property Tax Relief Program	$645	11%
3	Employment Assistance Services	$531	9%
4	Financial Assistance for Public Education (SOQ)	$376	7%
5	Highway System Acquisition & Construction	$199	4%
6	Higher Education – Education & General Services	$177	3%
7	Financial Assistance for Public Education (Categorical)	$154	3%
8	Child Support Enforcement Services	$142	3%
9	Personnel Management Services (Employee Health Benefits)	$119	2%
10	Higher Education Instruction	$115	2%
	Total, 10 Programs	$3,675	65%

Note: Analysis limited to budget programs with expenditures of more than $50 million in FY 1999.
Source: JLARC analysis of Department of Accounts data.

est amount. Highway acquisition and construction rounds out the top five growth programs.

Virginia Spending Compared to Other States

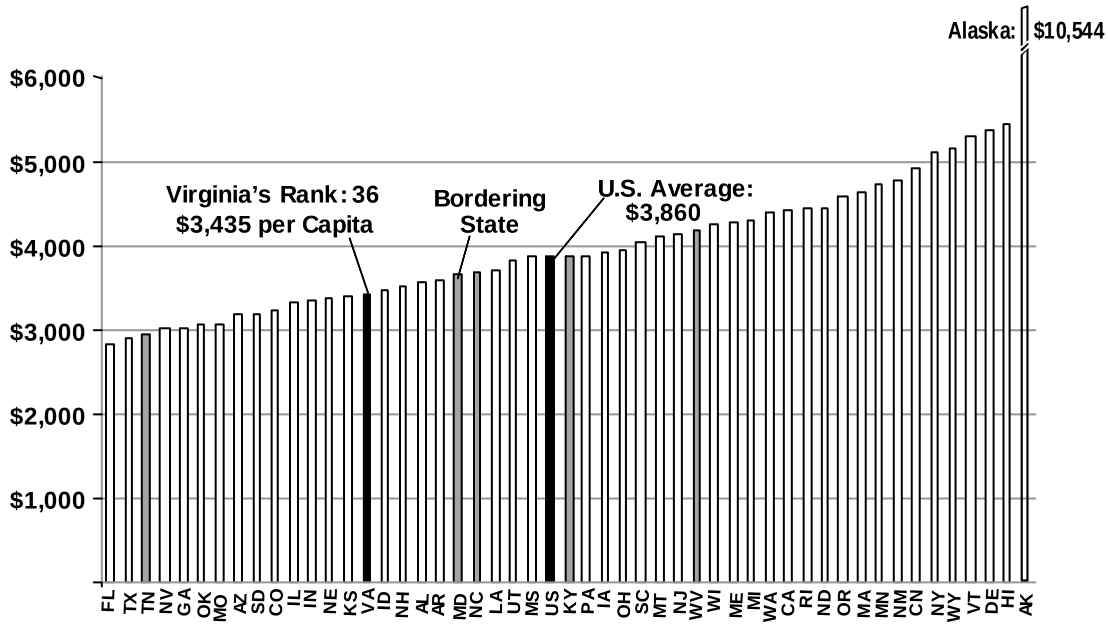
Virginia's spending increases over the 22-year period, while substantial, nonetheless kept the Commonwealth at the same place relative to the other 49 states, because spending by other states during this period kept pace with or even exceeded Virginia's spending increases. In FY 1981, Virginia ranked 36th in spending among the 50 states, using per-capita, inflation-adjusted dollars. In FY 2000 (the most current data available from the U.S. Census Bureau), Virginia again ranked 36th in this measure of spending (Figure 11). As noted in the JLARC Report, *Review of State Spending: June 2002 Update*, Virginia ranked as high over the period as 33rd from FY 1988-1990, and as low as 46th in FY 1994-1995.

The rank of some of Virginia's neighboring states changed significantly over the period. North Carolina, for example, moved up from 39th in FY 1981 to 30th in FY 2000, and Maryland moved down from 21st to 31st.

Figure 11

States Compared for Spending Per Capita

Fiscal Year 2000



Source: JLARC staff analysis.

CONCLUSION

Like growth in appropriations, most spending growth occurred in the State's core activities. These include the broad functional areas of individual and family services, education, and transportation. The general government function displayed the highest long-term growth rate in per-capita, inflation-adjusted terms, primarily due to rapid growth in the personal property tax program. Although Virginia has had significant budget and expenditure growth, so have the other states. In 2000, Virginia ranked 36th out of the 50 states in per-capita spending, the same as in 1981.

Appendixes

Appendix A

Study Mandate

House Bill 2865

2001 Session

A Bill to amend the Code of Virginia by adding a section numbered § 30-58.3, relating to an annual report on state spending by the Joint Legislative Audit and Review Commission.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding a section numbered 30-58.3, as follows:

§ 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

Final Legislative Operating Appropriations by Secretarial Area

(Dollars in Millions, Unadjusted for Inflation)

Fiscal Year	Admin. & Finance	Administration	Commerce & Resources	Economic Dev./ Commerce & Trade	Education	Finance	Health & Human Resources	Natural Resources	Tech-nology	Transportation & Public Safety	Public Safety	Transportation
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		699		736	9,958	491	6,845	252	43		1,899	3,404

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 not shown, nor are the independent agencies, central accounts, or the Executive Offices. However, 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 C

Virginia State Expenditures by Governmental Function

(Dollars in Millions, Unadjusted for Inflation)

Fiscal Year	Education	Admin. of Justice	Individual and Family Services	Resource and Economic Development	Transportation	General Government	Enterprises	Capital Projects	Total Expenditures
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
Change 1981-2002	5,826	1,730	6,422	598	2,435	2,256	1,090	308	20,666
% Change 1981-2002	304%	510%	347%	412%	264%	778%	382%	195%	350%
Annual Average % Change	6.9%	9.1%	7.5%	8.4%	6.9%	13.2%	8.1%	7.4%	7.5%

Expenditures are on a budgetary or cash basis. Includes all operating and capital spending as well as expenditure of bond proceeds.
Sources: Comprehensive Annual Financial Reports, and correspondence with Department of Accounts for FY02 data.

Appendix D

Final Legislative Operating Appropriations by Fund

(Dollars 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
Change 1981-2002	17,770	9,327	1,013	2,155	1,894	222	634	99	235	2,190	8,443
% Change 1981-2002	311%	347%	536%	393%	193%	108%	477%	450%	1567%	235%	279%
Annual Average Change	7.0%	7.5%	9.6%	8.1%	5.5%	3.9%	10.1%	18.9%	16.3%	6.0%	6.6%

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

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