REPORT OF THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION

Review of State Spending: June 2002 Update

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

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Preface

The 2001 General Assembly passed House Joint Resolution 773 and House Bill 2865, directing the Joint Legislative Audit and Review Commission (JLARC) to analyze the causes of budget growth in Virginia. Part of the concern was that spending growth may have been excessive, since it surpassed both population growth and the rate of inflation.

This study is the second in JLARC's series on State spending, and updates the first report, *Interim Report: Review of State Spending* (House Document 30, 2002). This report updates the analysis of budget and spending growth from FY 1981 through FY 2001.

The population of Virginia increased 32 percent between 1980 and 2000, growing from 5.3 million to 7.1 million persons. Between 1981 and 2001, the period reviewed in this report, inflation rose 102 percent. Concurrently, the State budget increased 314 percent, an average annual rate of 7.4 percent. Adjusting this budget growth for inflation and population growth, Virginia's budget grew 55 percent, an average annual rate of 2.3 percent.

Chapter IV of this report focuses on how Virginia's spending over the 21-year period of this review ranks in comparison to the other 49 states. Overall, Virginia's spending grew slightly less than the 50-state average. Virginia has consistently ranked 36th among the states in per capita state spending.

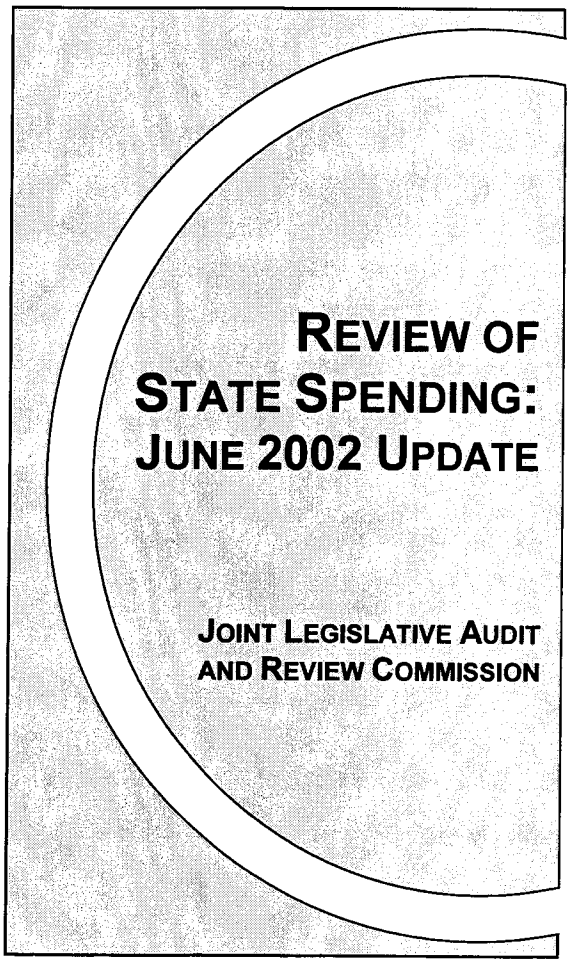
Several of Virginia's spending priorities have stayed fairly stable. Throughout the period, Virginia ranked no lower than seventh place among the 50 states in terms of spending for police protection and corrections. Virginia was also an above-average spending state on highway construction and maintenance. The Commonwealth was in the middle ranks in spending on education; moved from the middle ranks to as low as 47th in terms of spending per capita on welfare, hospitals, and health; and was at or near 50th throughout the period in per capita spending on the environment, parks, and recreation.

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

Philip A. Leone
Director

July 12, 2002

JLARC Report Summary



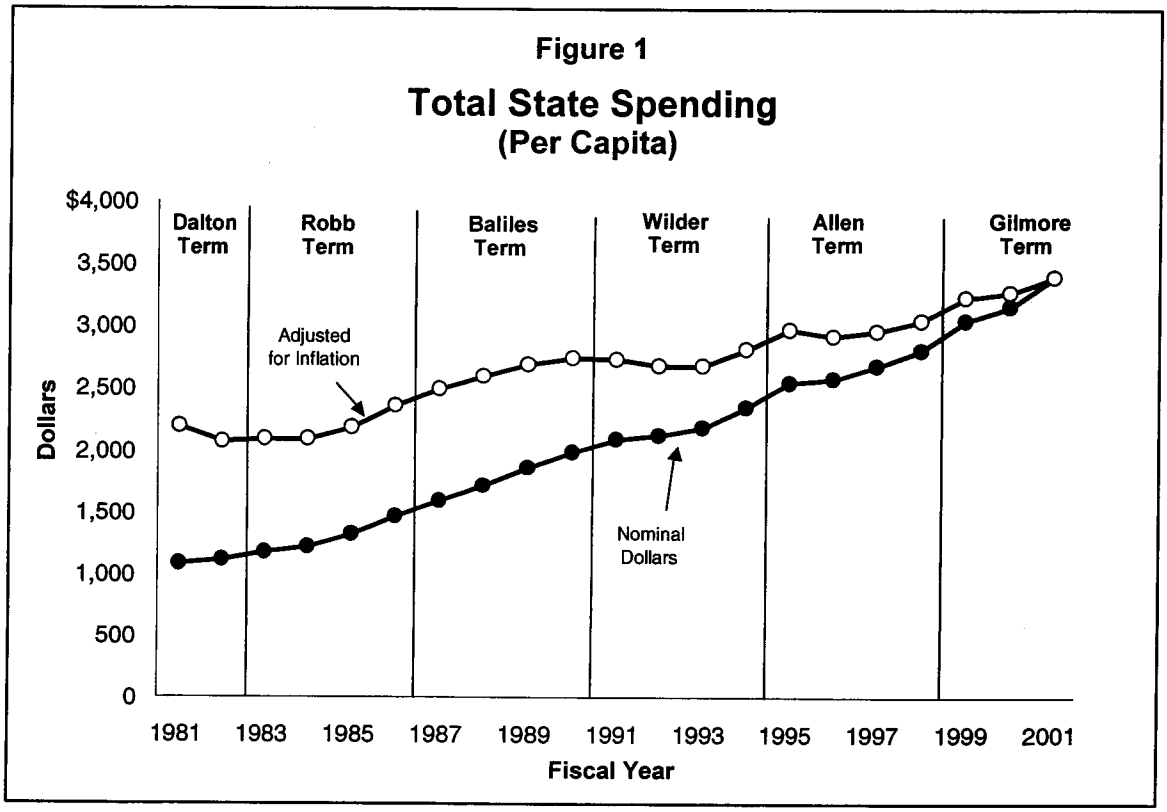
The 2001 General Assembly adopted two measures directing JLARC to review expenditure growth and related matters. House Joint Resolution 773 and House Bill 2865 (adding § 30-58.3 to the *Code of Virginia*) require JLARC to develop an annual report on State spending growth. Specifically, these mandates require JLARC to identify the largest and fastest growing functions and programs in the State budget.

This report is the second 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. This report updates the analysis of budget and spending growth through FY 2001. A separate report on other aspects of the study mandate will be provided this fall.

Growth in State Spending, 1981-2001

State government spending in Virginia grew by $18.5 billion between FY 1981 and FY 2001. Adjusting for both the effects of inflation and for population growth, this represented a 2.3 percent annual average increase. Growth was concentrated in the traditional core services of State government. Over half the total increase was accounted for by only five agencies (out of 144). At a more detailed level of growth, seven programs contributed nearly half the total increase (out of 195). A variety of factors including inflation, a growing population and economy, and recent State initiatives account for most of the increase. This level of budget and spending growth allowed Virginia to maintain relatively stable levels of spending on the major functional areas of government. This spending growth also placed Virginia in the mid-30s among the 50 states in 15 of the 21 years covered in this review, in terms of per capita, inflation-adjusted spending.

Unadjusted for inflation, total State spending increased by 314 percent between FY 1981 and FY 2001. Expenditures, which include the spending of bond proceeds, actually increased slightly faster than State appropriations, which increased 308 percent over the period. These increases reflect an annual average increase of 7.4 and 7.3 percent, respectively. Spending growth displays a clear and persistent upward trend even when adjusted for inflation (Figure 1). Over the 21-year period, spending increased 105 percent when



adjusted for inflation and put on a per-capita basis.

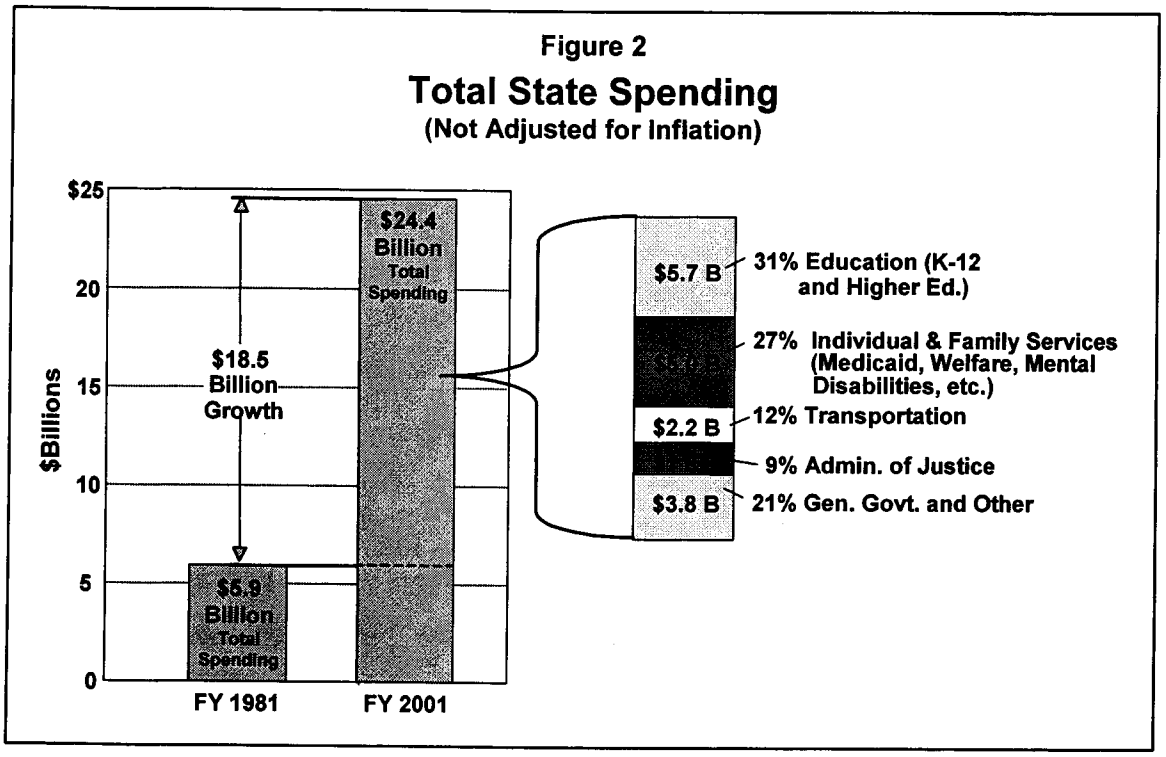
The two largest functional areas of State government, in terms of dollars spent, are education and individual and family services. These two broad functional areas accounted for the majority of State spending in the base year (64 percent of spending in FY 1981), and they also accounted for the majority of spending growth (58 percent) between FY 1981 and FY 2001. Education spending grew by $5.7 billion, 31 percent of the $18.5 billion total increase. The individual and family services function grew by $5.0 billion, 27 percent of the increase. As noted in Figure 2, other increases in the broad functions of government included:

- transportation increased $2.2 billion,
- general government increased $1.9 billion,
- administration of justice increased $1.8 billion,
- enterprises increased $1.0 billion, and
- resource and economic development increased $0.6 billion.

Program-level increases drove these broad functional level increases.

At the program level, a more detailed level of the State budget which accounts for resources directed at specific objectives, budget growth was concentrated in the fundamental State government activities of education, health care, and transportation. This was due in part to the large sizes of these core programs.

The five highest-growth programs accounted for 47 percent of the total budget increase since FY 1983. The medical assistance services (Medicaid) program grew the most, up $2.5 billion, accounting for 14.6 percent of total bud-



get growth. Medical costs increased rapidly during most of the study period. The number two program was financial assistance for public education (standards of quality), up $1.9 billion. This program represents the largest component of education funding to localities, and its growth accounted for 11.1 percent of total budget growth over the period. The third largest increase was for educational and general programs (which includes core college and university functions). Growing almost $1.6 billion, this program accounted for over nine percent of total budget growth.

Highway systems acquisition and construction was the number four growth program at $1.1 billion or 6.8 percent of total growth. Financial assistance for special State revenue sharing rounded out the top five growth programs. This program budgets the sales tax portion of State support for local school divisions and grew by $861 million, or 5.1 percent of total growth.

Among the high-growth agencies, the pattern is similar to that at the program level. The five highest growth agencies were the Department of Education, up $3.3 billion; the Department of Medical Assistance Services, up $2.6 billion; the Department of Transportation, up $1.9 billion; the University of Virginia, up $0.9 billion; and the Department of Social Services, up almost $0.9 billion.

The broad general government function had the highest growth rate after adjusting for inflation and population growth, with real growth of 184 percent over the 21-year period (Table 1). Two key factors in this rapid growth were the initiation of the personal property tax relief program late in the period, and increased debt service payments.

The broad governmental function with the second-highest growth, after controlling for inflation and population growth was administration of justice, with 131 percent growth between FY 1981 and FY 2001 (Table 1). Much of this growth was due to the expanding State prison population, (from 8,363 in 1981 to 33,103 in 2001 – a 296 percent

increase), increased employment in the Department of Corrections as new prisons opened during the period, and increased State payments to localities for the State's share of the costs of jail operations and additional deputy sheriffs.

A key aspect of Table 1 is the ranking of both the education and individual and family services functions at fifth and sixth, respectively, in terms of percent change in per capita, inflation-adjusted dollars. Despite the fact that these two functions had the largest *dollar* growth over the period, they show less *real* inflation-adjusted per capita growth over the long term than the average statewide rate of 2.3 percent annually. This is due partly to the relatively large base each function had in FY 1981, so a relatively large dollar increase may calculate as a smaller percentage increase.

Late in the 21-year period of this review, when the largest dollar increases were occurring in the overall budget from year to year, new dollars coming into the State budget were more likely to be spent on general government and transportation, and less likely to be spent on education or individual and family services. This suggests that Virginia's long-term spending priorities, which had been relatively stable, may be shifting.

Table 1
Spending Changes by Function – FY 1981 to FY 2001
(Dollars in Millions)

Function	1981 Spending (unadjusted*)	2001 Spending (unadjusted*)	Dollar Change (unadjusted*)	Percent Change (PCIA**)	Annual Average Percent Change (PCIA**)
General Government	$290	$2,198	$1,908	184.4%	7.8%
Administration of Justice	339	2,091	1,752	131.2	4.4
Resource and Economic Development	145	790	646	104.9	3.9
Enterprises	285	1,286	1,002	69.4	3.0
Education	1,916	7,570	5,654	48.0	2.0
Individual and Family Services	1,853	6,897	5,044	39.5	1.7
Transportation	924	3,158	2,234	28.1	1.8
Capital Projects	158	451	293	7.0	2.6
Total Spending	$5,909	$24,441	$18,532	55.0%	2.3%

*Unadjusted means not adjusted for either inflation or population growth.
**PCIA means per capita, inflation-adjusted.

Factors Accounting for Growth

Several underlying factors account for much of this budget growth. These factors include:

- inflation,
- population and economic growth,
- other demographic changes,
- increases in service populations,
- Virginia-based initiatives, and
- federal mandates and incentive programs.

Budget and spending growth should be adjusted for inflation because prices have more than doubled since FY 1981. A market basket of goods and services purchased by the State would have cost twice as much in FY 2001 as in FY 1981. Virginia's population also grew 32 percent over the 21-year period. The economy, as measured by total personal income, grew by 282 percent. A larger population and economy require more schools, roads, and other State-funded services. More subtle demographic changes can also drive spending increases in specific programs. For example, Virginia's older population (over 65) grew at 1½ times the rate of increase in the overall population. An aging population tends to increase the demand for a variety of health and related services, such as Medicaid payments to nursing homes.

Changes in the populations served by State programs and agencies also influence budget growth. Most of the State's major service populations have grown since FY 1981. Elementary and secondary school enrollment, for example, increased ten percent during this period; enrollment in institutions of higher education increased 25 percent; the population served by Medicaid went up 131 percent; and the State inmate population increased 262 percent. Each of these service populations represents additional needs for State funding.

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, costing over $500 million in FY 2001. Although outside the timeframe of this review, $819 million is budgeted for this initiative in FY 2003. Other initiatives include increased funding for the "599" program, annual deposits to the revenue stabilization fund, and numerous smaller initiatives that combined represent hundreds of millions of dollars in new annual spending.

Finally, Virginia 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. These federal mandates and incentive programs provide large funding sources for programs the State might not otherwise be able to offer, yet participation still requires substantial State commitments.

Though spending has increased since FY 1981, when compared to other states over this period, Virginia's funding priorities have been relatively stable. In per-capita, inflation-adjusted terms, Virginia ranked in the mid-30s, in comparison to all 50 states, except during and after the recession of the early 1990s, when Virginia spending slipped to the mid-40s (Figure 3).

Virginia has also had relatively stable levels of spending on the major functional areas of government. When ranked against other states in per capita, inflation-adjusted spending, Virginia has ranked relatively high in state spending on public safety and highways, near the middle in education, and near the bottom in social services and natural resource spending. This consistent pattern indicates that Virginia's spending growth has served to maintain the State's relative position over time.

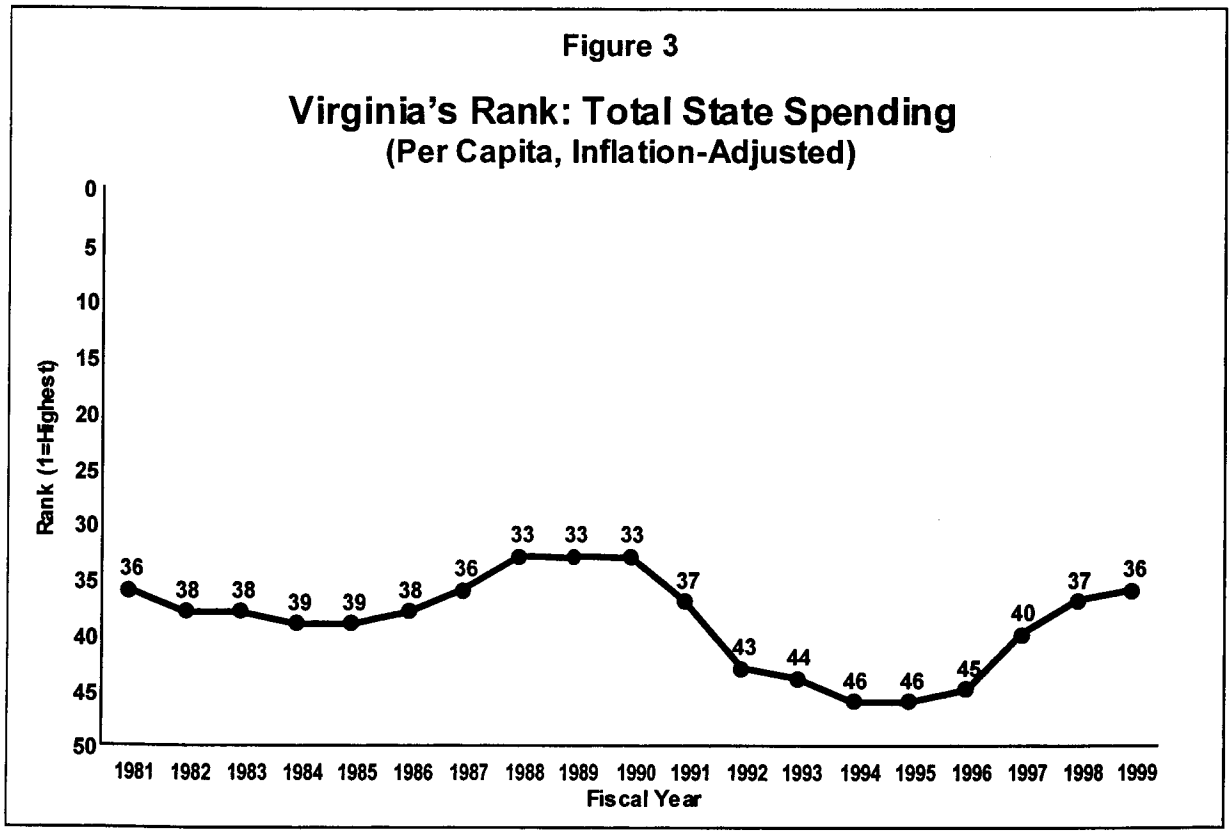


Figure 3
Virginia's Rank: Total State Spending
(Per Capita, Inflation-Adjusted)
Rank (1=Highest)
0
5
10
15
20
25
30
35
40
45
50
36
38
38
39
39
38
36
33
33
33
37
43
44
46
46
45
40
37
36
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
Fiscal Year

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I. Introduction

The 2001 General Assembly adopted two measures directing JLARC to review expenditure growth and related matters. House Joint Resolution 773 and House Bill 2865 (adding § 30-58.3 to the *Code of Virginia*) require JLARC to develop an annual report on State spending growth. Specifically, these mandates require JLARC to identify the largest and fastest growing functions and programs in the State budget. The study mandates are included as Appendix A.

This report is the second 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. This report updates the analysis of budget and spending growth through FY 2001. A separate report on other aspects of the study mandate will be provided this fall.

OVERVIEW OF BUDGET AND SPENDING GROWTH

The State budget and State spending have increased since FY 1981. In nominal terms (not adjusted for inflation), the operating budget grew by 308 percent between FY 1981 and FY 2001. Over that same period State spending (which includes the expenditure of bond proceeds) grew 314 percent. This growth represents a 7.3 percent annual average increase in the budget and a 7.4 percent annual average increase in expenditures.

These nominal increases include substantial increases in overall price inflation. The consumer price index, a commonly used measure of inflation, increased 102 percent between fiscal years 1981 and 2001. Using this index to remove the effects of inflation yields a 102 percent increase in the operating budget between FY 1981 and FY 2001. Total inflation-adjusted State spending grew 105 percent.

The study period for this report stretches back to budgets developed under the previous six governors. The upward curve of 7.4 percent in average annual growth is clearly shown in Figure 1, which plots total State spending (not adjusted for inflation) over the six gubernatorial administrations.

Adjusting for the effects of both inflation and population growth removes most, but not all, of the upward growth. Figure 2, which plots spending growth after adjusting for population increases and inflation, indicates the slower 2.3 percent annual average growth rate. Appendix B lists annual functional area spending since FY 1981.

Turning from expenditures, budgeted funds (appropriations) have also increased since FY 1981. The general fund budget grew 357 percent over the period,

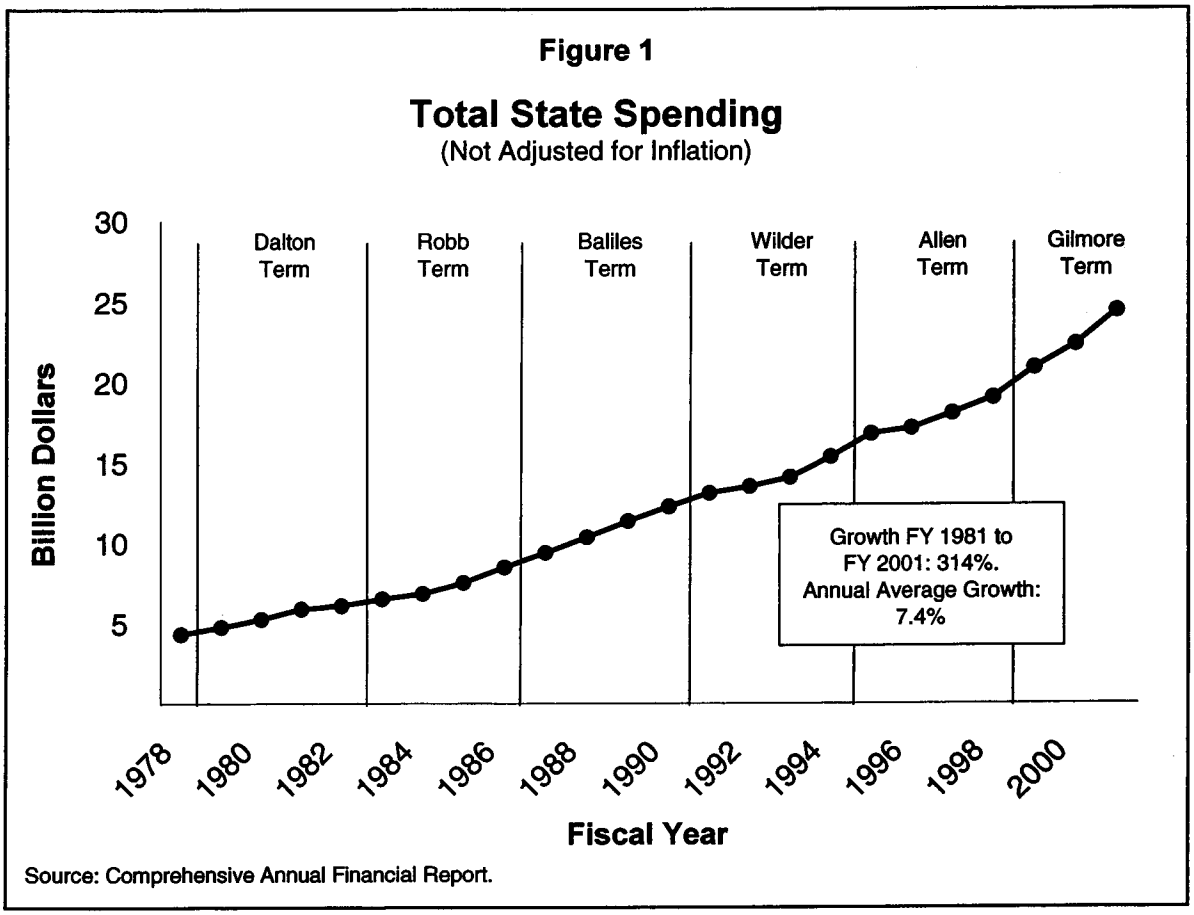


Figure 1
Total State Spending
(Not Adjusted for Inflation)
Billion Dollars
30
25
20
15
10
5
Dalton Term
Robb Term
Baliles Term
Wilder Term
Allen Term
Gilmore Term
Growth FY 1981 to FY 2001: 314%. Annual Average Growth: 7.4%
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
Fiscal Year
Source: Comprehensive Annual Financial Report.

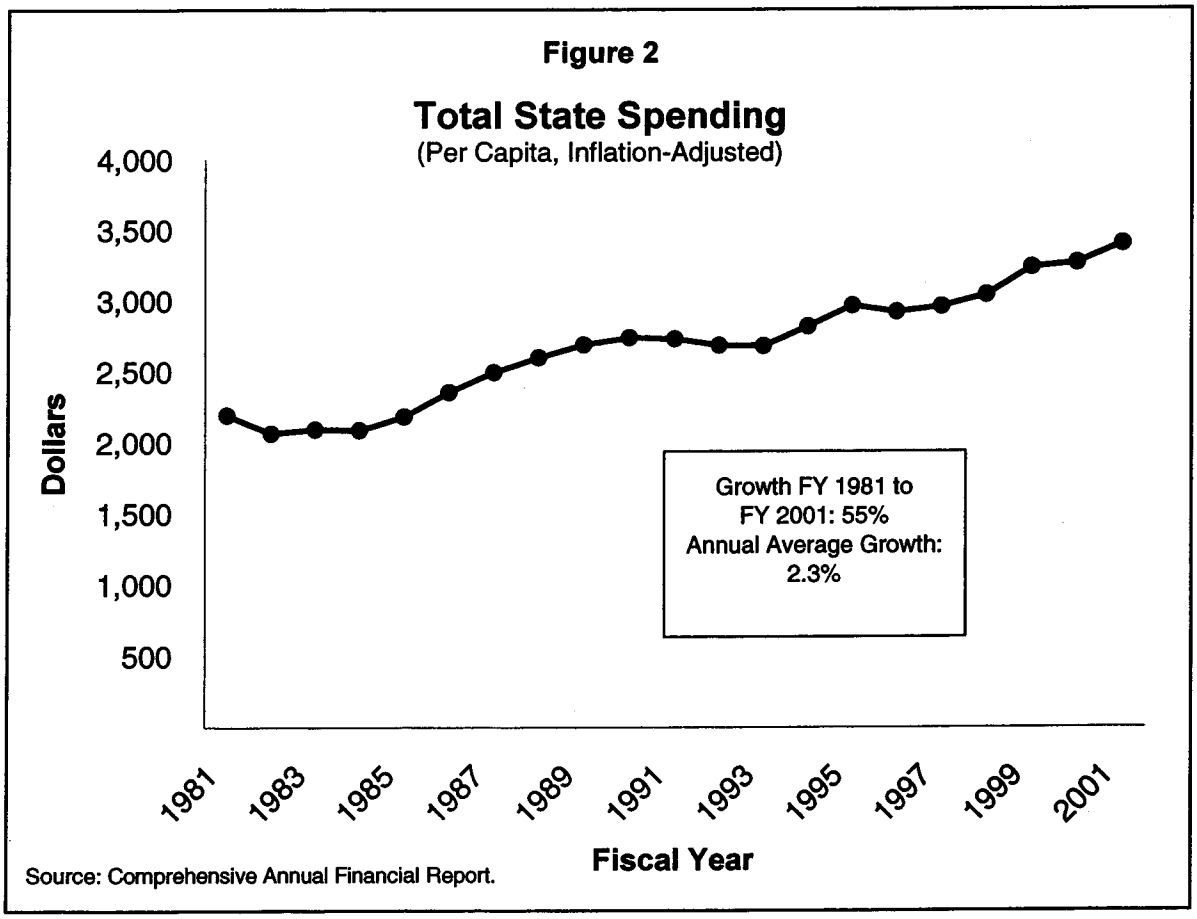


Figure 2
Total State Spending
(Per Capita, Inflation-Adjusted)
Dollars
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
Growth FY 1981 to FY 2001: 55% Annual Average Growth: 2.3%
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
Fiscal Year
Source: Comprehensive Annual Financial Report.

while non-general funds increased 265 percent. These increases caused the FY 2001 budget to be $17.6 billion larger than the FY 1981 budget. The general fund increase was $9.6 billion, while the non-general fund budget grew by $8.0 billion. Before adjusting for inflation, the total, general fund, and non-general fund budgets saw annual average increases of 8.5 percent, 9.4 percent, and 7.7 percent, respectively.

The 21-year history of Virginia appropriations is included in Table 1. Over these 21 years, the Virginia budget went through several distinct phases, often 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 appropriations in FY 1989. Aggregate changes in appropriations are shown in Figure 3. The recession of the early 1990s also impacted State finances, and the 1992 budget responded to the economic downturn when general funds decreased by $174 million.

Through the late 1990s budget growth rates increased due to the gradual nature of the economic recovery. The annual average percent change from 1990 to 1998 was 6.0, 5.9, and 6.2 percent, for total, general and non-general funds, respectively. In the mid-1990s general fund increases exceeded non-general fund increases. In percent terms, from FY 1992 to FY 1998, increasing general fund growth rates and decreasing non-general fund growth resulted in relatively stable overall growth rates.

In the final years of this 21-year period, the budget responded to the "bubble" economy with a return to higher growth rates. From FY 1999 to FY 2001, the general, non-general and total fund rate of growth averaged 11, 5.1, and 8.1 percent respectively. These last three years saw average annual increases in excess of a billion dollars.

After adjusting the budget data for inflation and a growing population since 1981, annual budget changes appear somewhat erratic (Figure 4). The effects of the recessions of the early 1980s and early 1990s caused real decreases in per capita appropriations. Virginia's budget shrank in real percentage terms in five of the last 20 years.

Budget growth in the 1990s was more complex than in the 1980s, with a slower economic expansion and policy changes such as State university tuition increases early in the decade and freezes in the latter part of the decade. In the 1980s increases in general funds were accompanied by increases in non-general funds. Between FY 1991 and FY 1998, however, this pattern reversed with non-general fund growth out-pacing general fund growth in four of the eight years. Total Per capita, inflation-adjusted operating appropriations grew 53 percent, with general funds up 71 percent and non-general funds up 37 percent. Appendix C lists appropriations by all fund types since FY 1981.

Table 1

Virginia Operating Appropriations

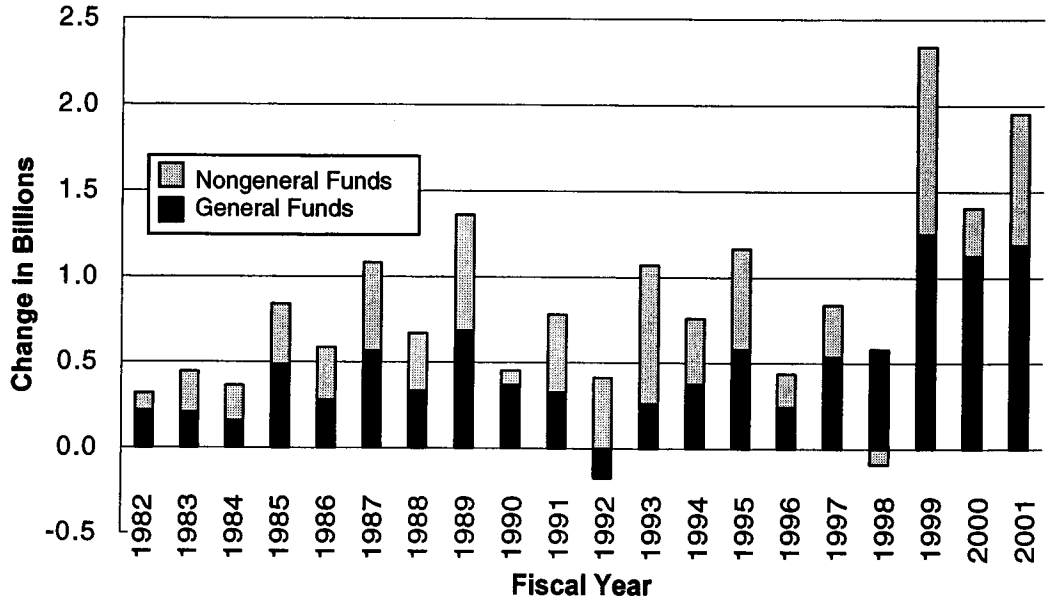
(Not Adjusted for Inflation, Dollars in Millions)

Fiscal Year	General Funds	Non-General Funds	Total Appropriations	Change
1981	$2,686.8	$3,026.0	$5,712.8	--
1982	2,903.8	3,128.7	6,032.5	5.6%
1983	3,110.8	3,366.3	6,477.1	7.4%
1984	3,268.1	3,573.2	6,841.2	5.6%
1985	3,752.9	3,929.1	7,682.0	12.3%
1986	4,031.9	4,237.0	8,268.9	7.6%
1987	4,599.3	4,751.3	9,350.5	13.1%
1988	4,932.0	5,089.3	10,021.3	7.2%
1989	5,618.7	5,764.7	11,383.4	13.6%
1990	5,989.1	5,847.4	11,836.5	4.0%
1991	6,314.8	6,305.2	12,620.1	6.6%
1992	6,140.5	6,717.3	12,857.8	1.9%
1993	6,401.5	7,525.8	13,927.3	8.3%
1994	6,777.3	7,908.8	14,686.1	5.4%
1995	7,355.7	8,498.1	15,853.8	8.0%
1996	7,597.2	8,693.6	16,290.9	2.8%
1997	8,134.4	8,996.7	17,131.1	5.2%
1998	8,715.5	8,905.2	17,620.7	2.9%
1999	9,967.4	9,994.7	19,962.1	13.3%
2000	11,093.4	10,275.6	21,369.0	7.0%
2001	12,283.6	11,039.1	23,322.7	9.1%
Change 1981 to 2001	**$9,596.8**	**$8,013.2**	**$17,609.9**	
Percent Change 1981 to 2001	**357.2%**	**264.8%**	**308.3%**	
Annual Average Change	**8.0%**	**6.8%**	**7.3%**	

Source: Acts of Assembly, Final legislative appropriation for respective fiscal years.

Figure 3

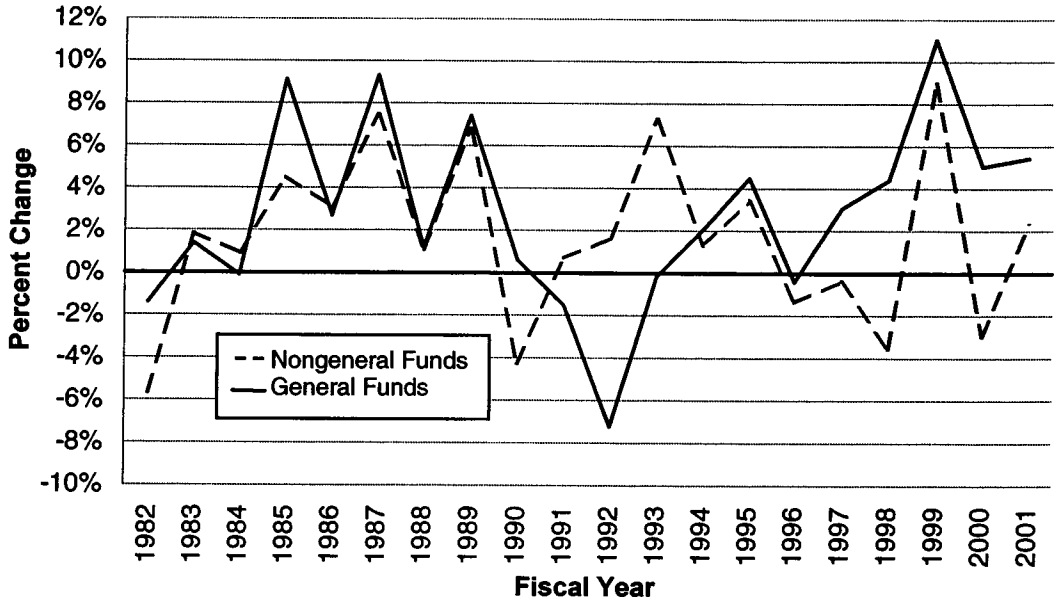
Annual Change in Appropriations
(Not Adjusted for Inflation)



Source: JLARC staff analysis of Acts of Assembly, final legislative appropriation for respective fiscal year.

Figure 4

Annual Change in Appropriations
(Per Capita, Inflation-Adjusted)



Source: JLARC staff analysis of Acts of Assembly, final legislative appropriation for respective fiscal year.

MAJOR SPENDING AND BUDGET DRIVERS

These spending and budget trends occurred within the broader context of Virginia's changing economy, population, and government. Many of these factors are important "budget drivers" -- trends or events that promote budget and spending growth. Some important factors promoting or driving spending growth since 1981 include overall price inflation, population and economic growth, State initiatives, and federal mandates. This section discusses how these factors influence overall budget growth.

Inflation

Inflation, a general increase in the level of prices, explains much of the increase in the budget. As measured by the consumer price index, inflation increased by 102 percent over the study period. As a result, the State budget would have doubled between by FY 2001 just to maintain the same service level as in FY 1981.

Using an overall price index helps describe total budget changes. A given program may, however, experience faster or slower rates of inflation depending on the special mix of goods and services purchased by that program. For instance, medical care inflation increased by 229 percent. By this measure, Medicaid spending per eligible individual actually fell eight percent from FY 1981 to FY 2001.

Population and Economic Growth

Virginia became both wealthier and more populous over this 21-year period. Population increased by 32 percent between 1981 and 2001, from 5.4 million to 7.2 million people (Table 2). A larger population indicates a need for higher service levels under some State programs, such as education (elementary, secondary, and higher), and transportation. Other populations served by State programs such as Temporary Assistance for Needy Families (TANF) and Medicaid to some extent expand or contract in response to Virginia's economic performance.

Other demographic changes can also drive budget programs. For instance, the size of Virginia's population over the age of 65 grew 52 percent between 1981 and 2001. A growing elderly population can drive increases in Medicaid-funded nursing home payments. At the same time, the number of children (under age 18) increased by 19 percent. These children represent potential demand for elementary, secondary, and higher education. Other indicators of changes over the 21-year period in the economy and population are shown in Table 2.

The Virginia economy grew between 1981 and 2001 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 provides increased revenues. On the demand side, new business and population centers require additional public sector services from roads to schools and public safety.

Table 2

Virginia Then and Now: Changes 1981 to 2001

Characteristic	1981	2001	Percent Change
Population			
Population	5,444,097	7,187,734	32%
Population Under Age 18	1,456,000	1,738,262*	19%
Population Over Age 64	522,000	792,333*	52%
Economy			
Total Employment (Nonfarm)	2,160,792	3,563,008	65%
Total State Personal Income (Millions)	$61,470	$234,745	282%
Per Capita Personal Income	$11,291	$32,412	187%
Service Sector Share of Private Earnings	25%	42%	68%
Manufacturing Sector Share of Private Earnings	26%	13%	-50%
Mining Sector Share of Private Earnings	4%	1%	-75%
State Finance			
Total Revenues (Millions)	$5,802	$24,064	315%
State Budget (Millions)	$5,708	$23,323	309%
Total State GF Operating Budget (Millions)	$2,672	$12,284	360%
Average State Employee Salary	$13,445	$33,176*	147%
State Workloads/Populations Served			
Elementary & Secondary Education Enrollment	1,024,334	1,130,446	10%
Medicaid-Eligible Recipients	288,254	666,855	131%
Enrollment, 4-Year Colleges & Universities	123,292	154,304	25%
Registered Vehicles	3,823,055	5,877,617	54%
Vehicle Miles Traveled (Billions of Miles)	38.4	74.8*	95%
Public Assistance Recipients (AFDC/TANF)	162,300	67,388	-58%
MHMR Institutional Average Daily Census	7,953	3,391	-57%
State-Responsible Inmate Population	8,363	33,109	296%
State Park Visitors	3,717,954	6,319,300	70%
Undergraduate Tuition & Fees (In-State; UVA)	$1,044	$4,160	298%

* 2000 Data.
Note: Unless otherwise noted, dollars shown are nominal (not adjusted for inflation).
Source: JLARC staff analysis.

Economic growth has been driven by increases in the workforce and by changes in the mix of industries employing Virginians. Employment measured as the non-farm workforce grew by 65 percent between 1981 and 2001: from 2.16 million 3.56 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 2001 this share had grown to 50 percent. Of the additional jobs in Virginia, about half were due to population growth and the other half were due to the increase in labor market participation, especially by women.

Personal income, earnings from wages, salaries, interest, dividends and rent, is another indicator of economic growth. Per capita personal income grew by 187 percent from $11,291 in 1981 to $32,412 in 2001.

Another major economic factor is the changing mix of industries in Virginia as measured by the share of earnings received by various industries. Shifts to high paying service industries characterize Virginia's economic growth since 1981 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 have decreased.

Over this time, government came to play a smaller role, 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 remained 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. These broad demographic and economic changes influenced the size of service populations.

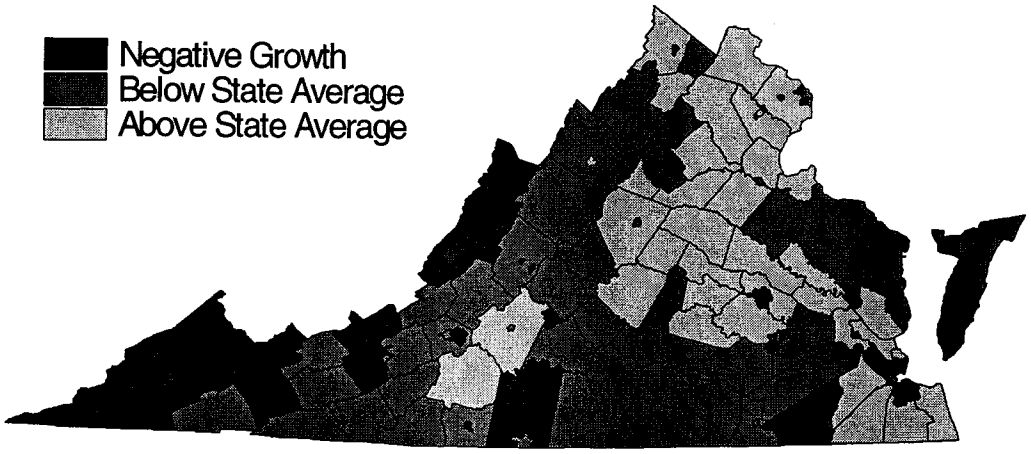
Regional Differences in Growth

While Virginia has experienced overall population and economic growth, there have been substantial regional differences in both population changes and economic activity. Uneven development and growth can drive spending in two ways. First, fast growing areas require expanded infrastructure and other services such as roads and schools. Second, stagnant or declining areas may require additional human service programs and may prompt calls for increased investment to stimulate economic activity.

The suburban eastern half of the State has grown faster than other areas (Figure 5, Map 1). Thirty-one Virginia counties and cities lost population between 1980 and 2000.

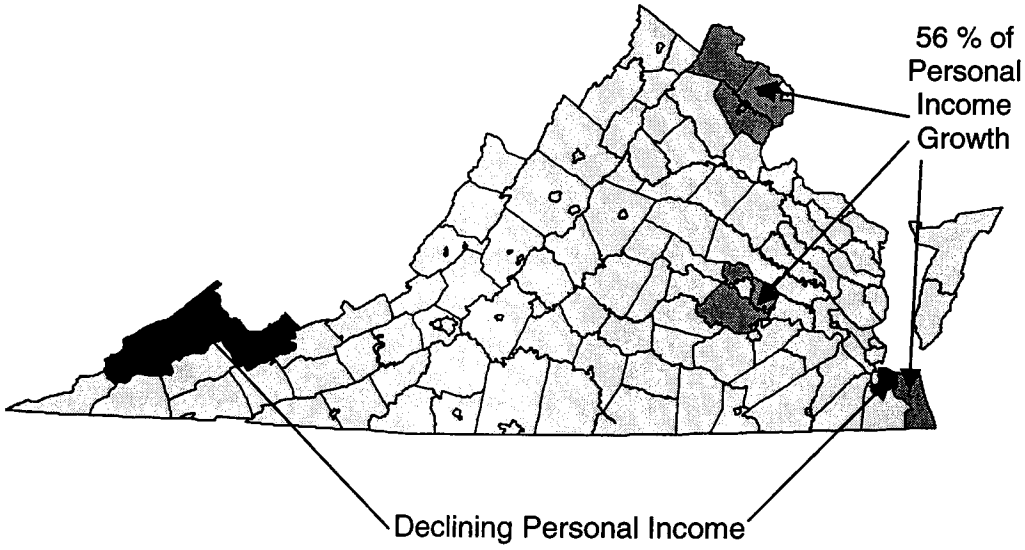
Figure 5

Map 1: Percentage Population Change, 1980 - 2000



Note: State average population growth rate, 1980 to 2000, was 32%.
Source: JLARC Staff analysis of U.S. Census data.

Map 2: Personal Income Growth, 1981 – 2001
(Per Capita, Inflation-Adjusted)



Source: JLARC Staff analysis of U.S. Bureau of Economic Analysis data.

Economic growth did not occur evenly across the State (Figure 5, Map 2). Most personal income growth also occurred in areas that experienced population gains. Just ten localities enjoyed 56 percent of the total increase in personal income since 1981. Fairfax County and the cities of Fairfax and Falls Church together accounted for 29 percent of all personal income growth since 1981. An additional 26.5 percent of combined personal income growth occurred in the cities of Virginia Beach, Manassas and Manassas Park, and the counties of Chesterfield, Henrico, Prince William, and Loudoun.

Service Population Increases

Several major service populations and direct measures of program caseloads are listed in Table 2. Table 3 compares the growth in spending in major programs or agency budgets directed at these service populations with the growth in the populations themselves. In some cases, growth in the population being served exceeds spending growth. In other cases, service population growth is slower than spending growth. In these latter cases, excessive price inflation or expansions in the level or kinds of services provided may explain the increase in spending.

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 account for these increases, such as rapid prescription drug cost increases in Medicaid, and staffing requirements in mental health facilities (with decreasing service populations).

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 is contained 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 21-year period.

Virginia Initiatives

During the 21-year period of this review, Virginia embarked on several major initiatives that helped shape the State's overall pattern of spending. In addition to overall population and economic growth, and changes in major service populations, State initiatives can also drive spending. In some cases, the initiatives were proposed by a Governor and may have been a key campaign issue. In other cases, the initiatives stemmed from legislative or other sources. Once enacted, however, these initiatives remain significant sources of expenditure.

Table 3

Service Populations and Program and Agency Budget Changes
(Dollar Changes Adjusted for Inflation)

Population and Budget	% Change in Population and Budget
Elementary and Secondary Enrollment[1]	10%
Department of Education Budget[1]	97%
4-Year Public College & University Enrollment[2]	25%
4-Year Public College & University Budgets[2]	114%
Medicaid-Eligible Recipients[3]	131%
Department of Medical Assistance Services Budget[3]	246%
AFDC/TANF Recipients[4]	-57%
Temporary Income Supplemental Services Program Budget[4]	-66%
MHMR Institutional Average Daily Census[3]	-57%
Mental Health and Mental Retardation Facility Budget[3]	34%
Vehicle Miles Traveled[3]	95%
Department of Transportation Budget[3]	45%
State Inmate Population[2]	296%
Department of Corrections Budget[2]	162%

[1] From 1981 to 1997.
[2] From 1981 to 2000.
[3] From 1981 to 2001.
[4] From 1983 to 2000.
Source: JLARC staff analysis.

These initiatives reflect the variety of State services. Several initiatives were described in the *Interim Report: Review of State Spending* (House Document 30 (2002)), including:

- the "HB 599" program of financial assistance to localities with police departments, adopted in 1979, had an appropriation of $176.7 million in FY 2001;
- transportation initiatives in 1986, which generated more than $650 million in revenue in FY 2001;
- the revenue stabilization fund, which was initially funded in FY 1995 and had a FY 2001 appropriation of $103 million; and

- phase-out of the personal property tax, beginning in 1998 and requiring a $572.4 million appropriation in FY 2001.

Other initiatives also contributed to spending growth, including State funding for local school construction, funding for the "standards of learning," economic development assistance, and the creation of new agencies and entities throughout the 21-year period. Once included in the budget, even if their growth is uneven, these initiatives become a part of the base budget. Over time they can account for a sizeable portion of State spending.

School Construction. The vast majority of Virginia funding for elementary and secondary education focuses on supporting the operating expenses of the 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.

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 to 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 2001 budget $39 million is earmarked for teacher training, remediation and materials under the SOL initiative.

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. By FY 2001, nearly $45 million per year was appropriated for these 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 2001. Other economic development activities were reorganized and consolidated into the Department of Business Assistance. In FY 2001, the department received $22.4 million, including $19.5 million in general funds.

Other Small New Agencies. Since FY 1981 over two dozen new agency codes have been added to the State budget. Some of these represent reorganizations of existing State functions. Not all these agency codes represent agencies in the conventional sense of an organization with staff and offices, but in many cases these

agencies do represent new spending responsibilities. As such they should be considered part of the overall reason for budgetary growth. Table 4 identifies the new spending initiatives.

For instance, the Virginia Information Providers Network Authority (VIPNET) was first budgeted in 1999 to facilitate the dissemination of information on Virginia government agencies and programs. Currently VIPNET maintains the State's web-based portal, which acts as a gateway to Virginia agencies and provides travel, relocation, and business development information.

A response to the emergence of a new form of communication – the internet – VIPNET represents a new State responsibility that did not exist in 1981. In FY 2001, the State budgeted $3.6 million in non-general funds for VIPNET. VIPNET derives this funding from fees paid by users of State electronic information services.

The entities in Table 4 represent $33.5 million in spending in FY 2001. While these new entities are easy to identify because they were given a new agency code in the budget, numerous other small spending initiatives may have emerged in the larger agency budgets over the last two decades but have been funded under existing budget codes. Growth in these hard to identify initiatives may represent a substantial portion of budget growth in that their continued funding is reflected in a base budget that once maintained only the core responsibilities of the State's agencies.

In total, the five areas discussed above represent over $150 million in spending on new State initiatives. Including the initiatives described in the *Interim Report*, the total for new programs and initiatives rises to over $1.6 billion. Thus, nearly nine percent of total budget growth from FY 1981 to FY 2001 can be attributed to these Virginia initiatives. There are still other programs and functions which the State funds that are not primarily driven by State initiative, such as federally mandated and federal incentive programs. Some of these are discussed in the next section.

Federal Mandates and Incentive Grants

Throughout the 21-year 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 may require substantial State funding.

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 $1.5 billion in federal grant funds and a total budget of $2.9 billion in FY 2001. The State receives approximately $1.02 from the federal government for each dollar it spends on Medicaid. This program is voluntary, yet all states have chosen to participate. Over the years there have been a variety of mandatory pro-

Table 4

New Agency Codes in the Budget since 1981
(Dollars in Millions)

Agency	FY 2001 Budget
Innovative Technology Authority	$13.8
Virginia Information Providers Network Authority (VIPNET)	3.6
Virginia Racing Commission	3.3
Virginia Museum of Natural History	2.7
Frontier Culture Museum of Virginia	2.2
Southwest Virginia Higher Education Center	2.1
Commission on the Virginia Alcohol Safety Program	1.3
Virginia Criminal Sentencing Commission	0.9
Office of the Secretary of Technology	0.8
Roanoke Higher Education Authority	0.7
Joint Commission on Health Care	0.5
Council on Human Rights	0.4
Virginia Commission on Youth	0.3
Commonwealth Competition Council	0.3
Virginia Freedom of Information Act Advisory Council	0.2
Chesapeake Bay Commission	0.2
Joint Commission on Science and Technology	0.2
Martin Luther King Jr. Memorial Commission	0.04
Total	**$33.5**

Source: JLARC staff analysis of Appropriation Act data.

gram expansions that Virginia has accommodated to remain eligible for the federal matching funds. This type of expansion of certain federal programs tends to blur the distinction between providing incentives to participate and mandatory participation.

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 cost of federally mandated changes to the program at $107 million through 2002. This amount only includes the first time implementation costs, not any recurring spending that would result from increases in enrollment or 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 various goals such as workplace safety, or environmental protection. These requirements may not be considered a mandated service but still add to the costs of doing business for State government.

In most cases the federal government provides some funding for the various mandate or incentive programs that provide services to various individuals. These funds provide states an opportunity to pursue programs they might not otherwise attempt. The largest grant-funded federal programs in Virginia are the Medicaid and highway construction programs (Table 5). Many of these programs impose substantial administrative or regulatory requirements on the State to maintain its eligibility. The top 15 grants represented $3.9 billion in federal spending in Virginia in federal fiscal year 2001. The matching rate Virginia is required to provide varies from program to program.

While most of these grants are long-standing programs in the budget, some new programs entered the Virginia budget in response to federal incentive funding. The children's health insurance initiative, administered by the Department of Medical Assistance Services, is a notable example of a recent federal incentive program. This program offers states a 200 percent federal match to provide health

Table 5

Largest Federal Grants Received by Virginia
(Federal Fiscal Year 2001, Dollars in Millions)

Grant	Amount Received
Medical Assistance Program (Medicaid)	$1,772.7
Highway Planning and Construction	836.8
Temporary Assistance for Needy Families	160.9
Handicapped – State Grants	154.0
Educationally Deprived Children-Local Educational Agencies	138.4
National School Lunch Program	126.3
Senior Community Service Employment Program	110.3
State Children's Insurance Program (CHIP)	104.4
Airport Improvement Program	93.2
Administration for Children and Families – Head Start	85.6
Special Supplemental Food Program for Women, Infants and Children	77.9
State Administrative Matching Grants for Food Stamp Program	65.3
Workforce Investment Act	60.6
Urban Mass Transportation Capital and Operating Assistance Formula Grant	60.0
Foster Care Title IV-E	55.7
Total	**$3,902.1**

Source: US Census Bureau, Consolidated Federal Funds Report.

care for low-income children whose family resources preclude their eligibility under the Medicaid program. In FY 2001, $65 million was appropriated for this program.

Even though Virginia receives a large amount of federal grants as evidenced by Table 5, the state 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 (Table 6). At the same time, Virginia enjoys a disproportionate share of total federal spending due to the large military presence in the State and its geographic proximity to Washington, D.C.

Table 6

Virginia's Rank in Federal Grants and Total Federal Spending

Federal Fiscal Year	Federal Grants Rank Per Capita	Total Federal Spending Rank Per Capita
1995	50	1
1996	50	1
1997	50	1
1998	49	1
1999	49	2
2000	49	2
2001	49	2

Source: US Census Bureau, Consolidated Federal Funds Report.

Other Factors

In addition to federal mandate and incentive programs, there are several other factors that explain some of the growth in Virginia's budget since FY 1981. One factor is the requirement in the *Virginia Constitution* that all State expenditures may occur only as provided by appropriations. This means that funds such 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 taxpayer revenues, but by money paid by individuals or other organizations, such as 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. Five large programs of this type accounted for almost $3.3 billion in FY 2001 appropriations, appearing in the budget alongside items that represent taxpayer payments and other revenues (Table 7).

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

Table 7

Major Non-State Revenue Funded Non-General Fund Programs
(FY 2001, $ in millions)

Item or Program	Non-General Funds	Sources
Highway Construction	$900	Federal Matching Grants
University Tuition and Fees	895	University Students
Higher Education Auxiliaries	571	User Fees
University Sponsored Programs	531	Federal and Other Grants
Child Support Payments	368	Non-Custodial Parents
Total for These Five	**$3,265**	

Source: JLARC Staff Estimates.

last 21 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.

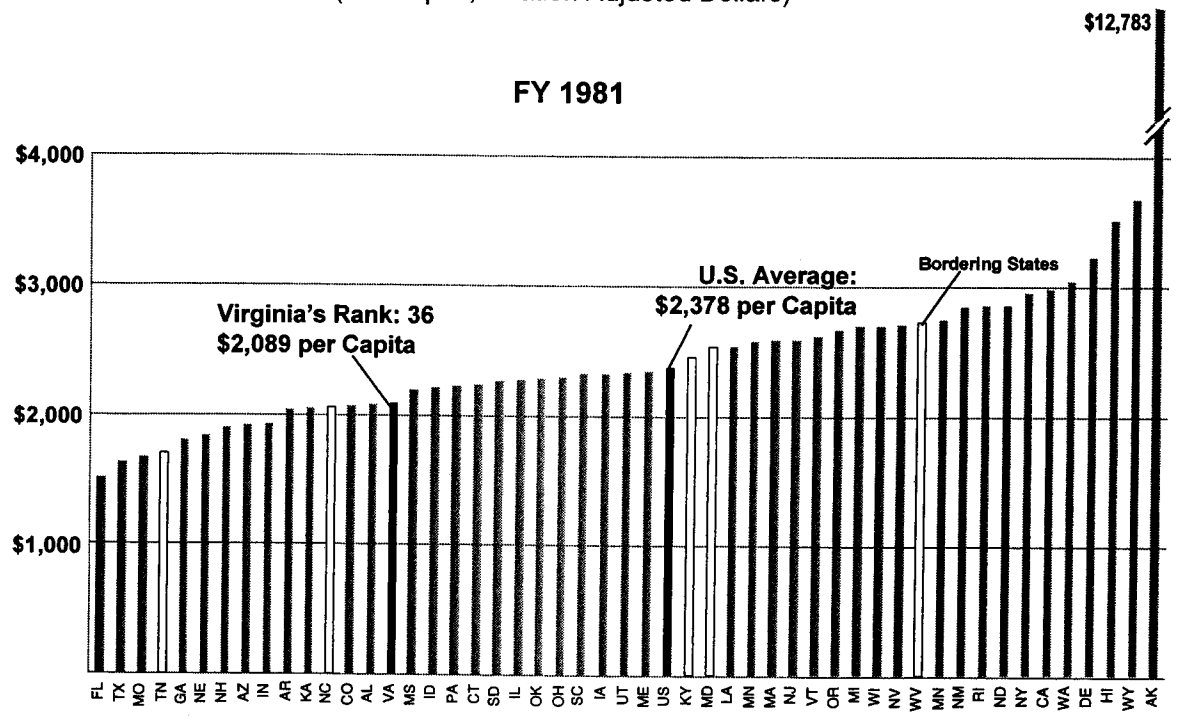
Virginia Spending Compared to Other States

While spending increased over this period, spending by other states kept pace or even exceeded Virginia's rates. National data helps place Virginia in the context of spending by other states. Despite Virginia's spending, the Commonwealth's ranking among the 50 states was the same in FY 1981 and FY 1999 (the most recently available data). Figure 6 illustrates Virginia's position in FY 1981 at 36th place in per capita, inflation-adjusted dollars. By FY 1999, Virginia's rank remained 36th among all states. Thus, increases in state spending appear to have been the norm over this period, and Virginia's spending increases merely served to maintain the State's position relative to other states. Chapter IV examines this spending data in more detail and shows that Virginia's spending priorities have been remarkably consistent since FY 1981 when compared to other states'. The next section provides some background on the basis of the Virginia budget process.

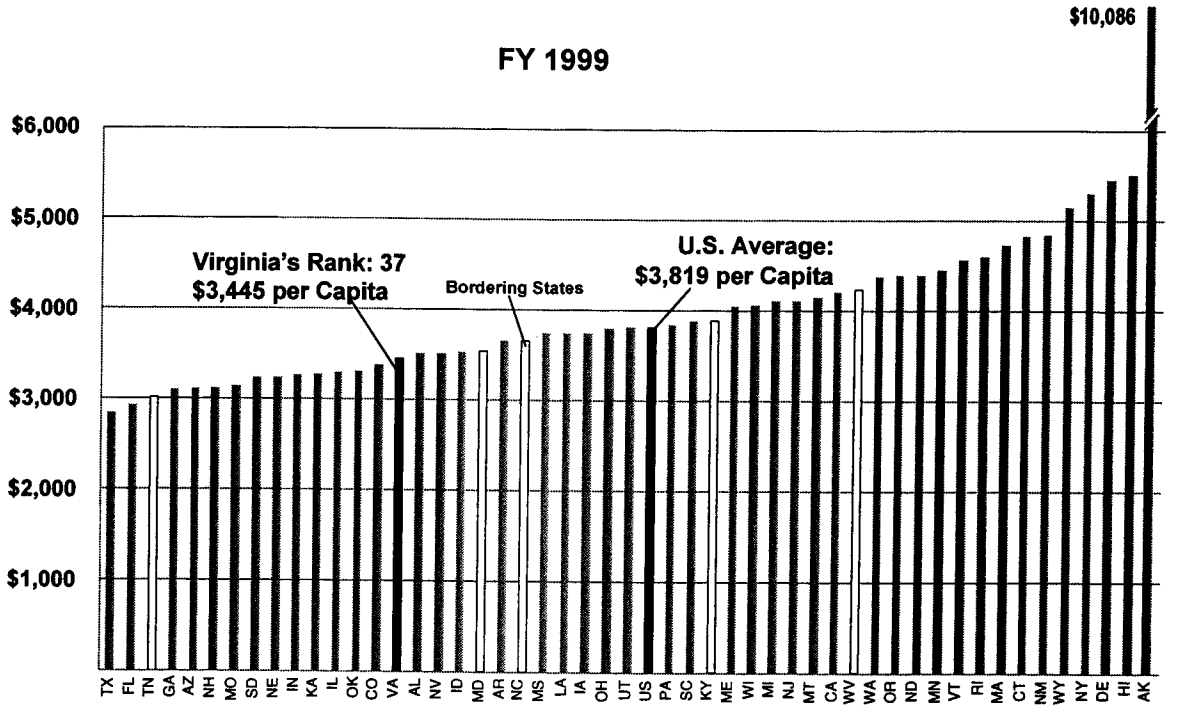
Figure 6

Virginia's Spending Compared with Other States

(Per Capita, Inflation Adjusted Dollars)



Source: U.S. Census Bureau.



Source: U.S. Census Bureau.

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)) describes 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 a variety of sources and is available at several levels of aggregation. Financial data is available in the form of appropriations and expenditures, and at the function, program, and agency levels of aggregation.

An appropriation may 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.

As used in this report, appropriations are the final appropriation approved (voted on and adopted) by the General Assembly. This includes all changes made to appropriations during a biennium, such as second year changes to first year amounts and "caboose bill" (a final Appropriation Act during a biennium) changes to second year amounts.

Expenditures are actual amounts spent by an agency. They may differ from appropriations because of mid-year adjustments to the legislative appropriation. Because detailed expenditure data was not available for the early years addressed by this study, this report 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 data for no more than three to five years.

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 "education" and "individual and family services." A budget program includes funding directed toward a specific objective such as developing or preserving a public resource, preventing or eliminating a

public problem, or improving or maintaining a service affecting the public. Programs are grouped by function and may appear in several agencies. 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), consists of 15 MHMR 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 appropriations to the College of William and Mary with the Virginia Institute of Marine Science to arrive at a total for the College of William and Mary. This approach identifies the 144 State agencies listed in Appendix D.

This report also separates the personal property tax relief program (746) from the central appropriations agency code total. This permits the 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 III, personal property tax relief is first compared to changes in agency budgets, where it is the 9th largest increase, and then to program budgets where it represents the 7th largest increase.

Using this definition of State agency, Table 8 identifies the 30 largest agencies in the FY 2001 budget.

JLARC REVIEW

This report, the second 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

Table 8

Largest Agencies by Total Operating Budget FY 2001

(Dollars in millions)

Rank	Agency Name	General Funds	Non-General Funds	Share of Total Budget
1	Department of Education	$4,007	$439	19.1%
2	Department of Medical Assistance Services	1,449	1,604	13.1%
3	Department of Transportation	326	2,515	12.2%
4	Department of Social Services	272	949	5.2%
5	University of Virginia	174	978	4.9%
6	Department of Corrections	726	98	3.5%
7	Department of Mental Health, Mental Retardation, and Substance Abuse Services	430	327	3.2%
8	Virginia Polytechnic Institute and State University	254	371	2.7%
9	Personal Property Tax Relief	572	--	2.5%
10	Virginia Commonwealth University	184	345	2.3%
11	Compensation Board	519	4	2.2%
12	Virginia Community College System	316	176	2.1%
13	Department of Health	146	275	1.8%
14	Virginia Employment Commission	--	411	1.8%
15	George Mason University	117	192	1.3%
16	Department of Criminal Justice Services	237	47	1.2%
17	Department of Alcoholic Beverage Control	--	273	1.2%
18	Treasury Board	243	7	1.1%
19	Supreme Court	242	1	1.0%
20	Department of Juvenile Justice	227	9	1.0%
21	Central Appropriations (Excluding personal property tax relief)	84	142	1.0%
22	James Madison University	69	146	0.9%
23	Department of State Police	175	32	0.9%
24	Old Dominion University	92	97	0.8%
25	The College of William and Mary in Virginia	68	110	0.8%
26	Department of Motor Vehicles	--	177	0.8%
27	Comprehensive Services for At-Risk Youth and Families	106	49	0.7%
28	Department of Environmental Quality	61	86	0.6%
29	Department of Rehabilitative Services	34	102	0.6%
30	Department of Rail and Public Transportation	--	133	0.6%
	Top 30	**$11,130**	**$10,097**	**91.0%**
	Total State Operating Budget	**$12,284**	**$11,039**	**100.0%**

Source: Chapter 814, 2002 Acts of Assembly; DPB.

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 as well as individual 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 the Department of Planning and Budget, 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 spending certified by the Auditor of Public Accounts 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 21 years. Consequently, useful information about budget change during the 1980s, for example, is unavailable from many agencies. Turnover in budget staff and in other key positions within agencies also frequently limited the amount of information available for historical purposes. Government 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 described below.

To facilitate access to the data developed in this review, JLARC staff plans to provide a State finance page on the JLARC website. This page will provide public access to agency and program budget data contained in this report and additional details not included in this document. The page will also provide access to datasets and links on other State fiscal, demographic, and economic data. This material should be available on the JLARC website (http://jlarc.state.va.us) later in 2002.

Literature 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 21-year study period. Agency-specific and program-specific studies and documents were reviewed, as were reports from legislative and gubernatorial study commissions and panels.

REPORT ORGANIZATION

This chapter provided an overview of budget and spending growth between FY 1981 and FY 2001 and identified major reasons for budget growth. Chapter II reviews growth in expenditures at the functional level and identifies the fastest growing programs by expenditures since FY 1999. Chapter III identifies the largest and fastest growing agencies by appropriations (since FY 1981), and programs by appropriations (since FY 1983). Chapter IV compares broad spending trends in Virginia to the other states between FY 1981 and FY 1999.

II. Spending Growth

State spending increased by 105 percent in inflation-adjusted terms between FY 1981 and FY 2001. Spending at the broad functional level varied considerably, from an increase of $646 million for the resource and economic development function, to a $5.7 billion increase for the education function. These functions, established when the State adopted program budgeting in the 1970s, include:

- administration of justice
- capital projects
- education
- enterprises
- general government
- individual and family services
- transportation, and
- resource and economic development.

An analysis of spending since FY 1981 indicates that some of the State's spending priorities varied significantly during the 21-year period. Over time, relative spending in some functions decreased, and spending in other functions increased, depending on the circumstances. Overall, education and individual and family services accounted for the bulk of total spending increases. In addition, specific high growth rate programs such as personal property tax relief caused formerly small functional areas like general government to become substantially larger spending areas.

This chapter documents functional spending growth since FY 1981, and identifies the budget programs with the highest rates of spending growth since FY 1999 within each function. Spending by function from FY 1981 to FY 2001 is listed in Appendix B.

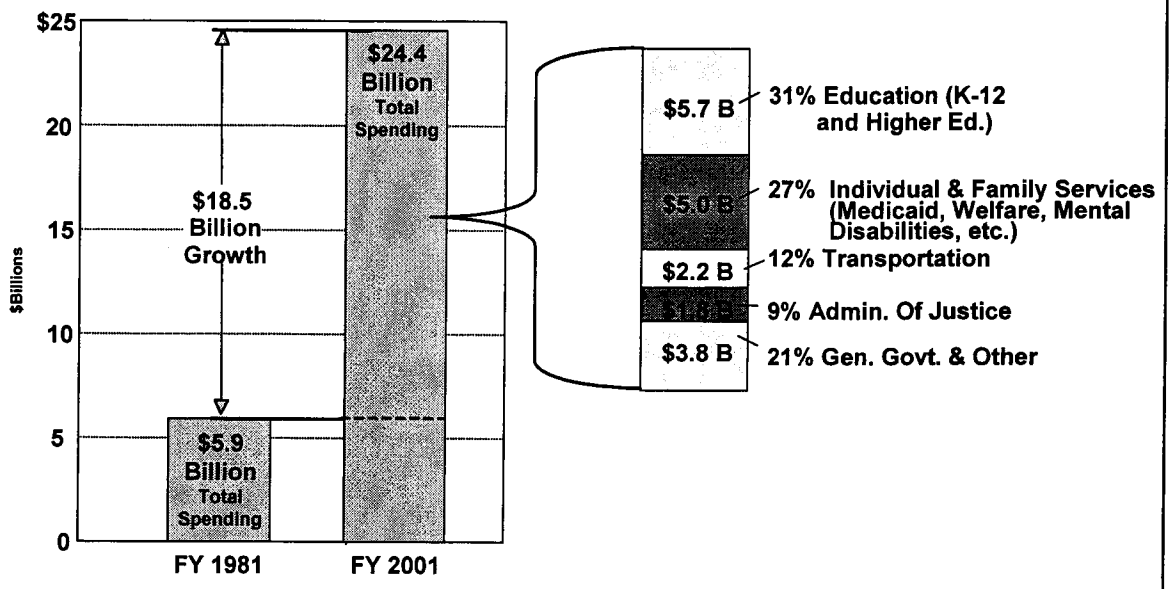
SPENDING GROWTH BY FUNCTIONAL AREA

Total spending increased $18.5 billion, from $5.9 billion in FY 1981 to more than $24.4 billion in FY 2001. Spending increases by function are shown in Figure 7. Education accounted for the largest share of this growth – with $5.7 billion additional spending. Individual and family services accounted for $5.0 billion of the increase. This was followed by transportation (up $2.2 billion), general government (up $1.9 billion), and administration of justice (up $1.8 billion). The "other" category

Figure 7

Growth and Composition of State Spending

(Not Adjusted for Inflation)



Source: JLARC staff analysis.

in the figure includes enterprises (up $1.0 billion), resource and economic development (up $646 million), and capital projects (up $293 million).

When adjusted for population growth and inflation, total spending increased by 55 percent (Table 9). Four functional areas grew faster than the total per capita, inflation-adjusted spending growth of 55 percent. These fast growing functional areas were led by general government (up 184 percent), followed by administration of justice (up 131 percent), resource and economic development (up 105 percent), and enterprises (up 68 percent). The slower growing functional areas were capital projects (up 7 percent), transportation (up 28 percent), individual and family services (up 40 percent), and education (up 48 percent).

The share of State spending accounted for by these eight functions varies considerably. In FY 2001, the two largest functional areas, education and individual and family services, accounted for 59 percent of total spending.

Over the period in question, the share of total spending allocated to education and individual and family services fell while the share of spending on the

Table 9

Spending Changes by Function – FY 1981 to FY 2001
(Dollars in Millions)

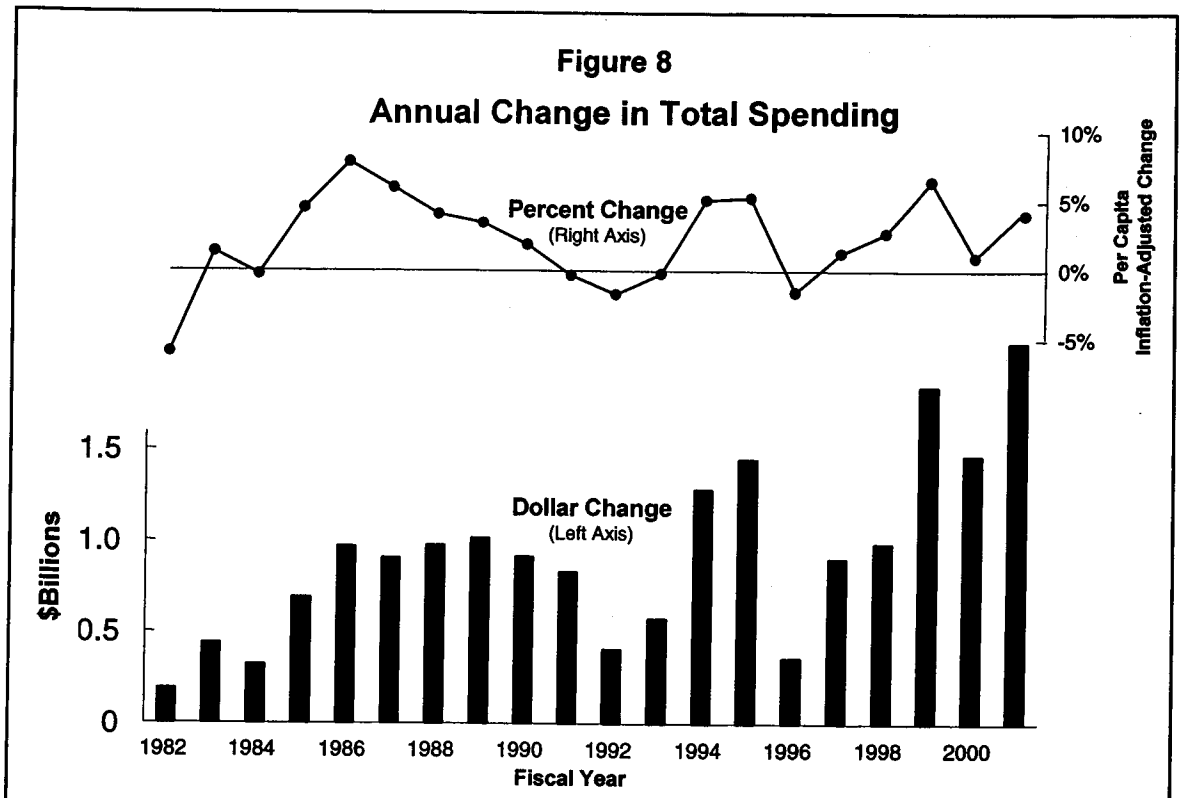
Function	1981 Spending (unadjusted*)	2001 Spending (unadjusted*)	Dollar Change (unadjusted*)	Percent Change (PCIA**)	Annual Average Percent Change (PCIA**)
General Government	$ 290	$ 2,198	$ 1,908	184.4%	7.8%
Administration of Justice	339	2,091	1,752	131.2	4.4
Resource and Economic Development	145	790	646	104.9	3.9
Enterprises	285	1,286	1,002	69.4	3.0
Education	1,916	7,570	5,654	48.0	2.0
Individual and Family Services	1,853	6,897	5,044	39.5	1.7
Transportation	924	3,158	2,234	28.1	1.8
Capital Projects	158	451	293	7.0	2.6
Total	$5,909	$24,441	$18,532	55.0%	2.3%

*Unadjusted means not adjusted for either inflation or population growth.
**PCIA means per capita, inflation-adjusted.
Source: JLARC staff analysis of Comprehensive Annual Financial Reports, Department of Accounts.

general government and administration of justice functions increased. The rank of the functions in terms of spending has also changed somewhat since 1981.

The rank of the functional areas remained the same for education (1st), individual and family services (2nd), transportation (3rd), and enterprises (6th). Administration of justice moved down from 4th to 5th, trading places with general government. Similarly, resource and economic development moved up from 8th to 7th, trading places with capital spending. The following section identifies large and fast growing programs by function. The chapter concludes with profiles of spending growth by functional area.

The effect of annual changes in spending on the overall, long-term increase in spending is shown in Figure 8. Total unadjusted spending increased each year between FY 1981 and FY 2001 (Figure 8 bars). Annual increases exceeded $1.0 billion per year in five recent fiscal years: 1994, 1995, 1999, 2000, and 2001.



Source: JLARC staff analysis of, *Comprehensive Annual Financial Reports,* 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 21 fiscal years. Real spending decreased in three fiscal years: 1982, 1992 and 1996. A 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.

Spending grew by only 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.

SPENDING GROWTH BY PROGRAM SINCE FY 1999

A review of spending growth by budget program 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 function level.

Spending data at the program level was readily available only since FY 1999. All growth rates in this section are in per capita, inflation-adjusted terms.

Largest Program Expenditures in FY 1999 to FY 2001

Total spending increased more than $3.5 billion between FY 1999 and FY 2001. Twenty-five programs accounted for 81 percent of the total spending increase (Table 10). The top five programs accounted for 44 percent of total spending growth over the three-year period. Program level spending is often spread across multiple agencies, though a single agency sometimes delivers services accounting for the bulk of a program's spending. Chapter III addresses budget growth by agencies.

The medical assistance services (Medicaid) program showed the largest total dollar growth over the last three years, though not the fastest growth rate. The large size of the Medicaid program translates into large dollar increases from even small percentage increases. Medicaid accounted for over 16 percent of the total spending growth between FY 1999 and FY 2001.

The second largest spending increase was for the personal property tax relief program. This program not only accounted for the second largest amount of total growth – 11.9 percent or $423 million – but was also the fastest growing of the large programs, with a 198 percent growth rate between FY 1999 and FY 2001.

The third largest dollar growth program was financial assistance for public education (standards of quality), increasing by $332 million. This program, which includes the standards of quality (SOQ) formula funding and the incentive-based programs in the Department of Education, accounted for 9.4 percent of total State spending growth. This program, however, does not represent a fast growing program, increasing only three percent over the period.

Rounding out the top five growth programs are higher education instruction, and "financial assistance to localities–general," which includes various revenue sharing activities such as ABC profits, mobile home and rental vehicle taxes, and recordation fees (there are additional budget programs which provide additional financial assistance to localities). Higher education instructional spending increased by almost $120 million, yet this represented zero growth in per capita, inflation-adjusted terms. It accounted for 3.4 percent of total State spending growth. Financial assistance to localities-general grew by 45 percent and accounted for three percent of total growth or about $106 million of spending growth between FY 1999 and FY 2001.

High Growth Rate Programs by Function

The previous section focused on the largest dollar growth programs. Often, small budget programs experience very high growth rates. This section identifies the fastest growing programs in each functional area. The results are summarized in Table 11. The fastest growing program was the personal property tax relief program at 198 percent, airport assistance at 116 percent, and administrative and support services for several resource and economic development agencies.

Table 10

Top Growth Programs – Dollar Growth FY 1999 to FY 2001

Rank	Program	Spending Growth (Million of Dollars)	Spending Growth (PCIA %)	Share of Total Spending Growth
1	Medical Assistance Services (Medicaid)	$571.3	11%	16.1%
2	Personal Property Tax Relief Program	422.9	199%	11.9%
3	Financial Assistance for Public Education (Standards of Quality)	331.7	3%	9.4%
4	Higher Education Instruction	119.8	0%	3.4%
5	Financial Assistance to Localities-General	105.9	45%	3.0%
6	Child Support Enforcement Services	104.7	14%	3.0%
7	Financial Assistance-Educational and General	102.6	8%	2.9%
8	Secure Confinement	96.8	13%	2.7%
9	Financial Assistance-Public Education (Categorical)	90.8	16%	2.6%
12	Financial Assistance-Special State Revenue Sharing*	87.8	0%	2.5%
11	Crime Detection Investigation and Apprehension	85.6	8%	2.4%
12	Higher Education Auxiliary Enterprises	80.1	3%	2.3%
13	Highway System Maintenance	77.8	-1%	2.2%
14	Bond and Loan Retirement and Redemption	67.9	25%	1.9%
15	Financial Assistance From Tobacco Settlement	62.3	NA	1.8%
16	Employment Assistance Services	56.6	3%	1.6%
17	Higher Education Instructional Support	53.6	8%	1.5%
18	State Health Services	52.2	-4%	1.5%
19	Administrative & Support Services (Transportation Agencies)	47.2	32%	1.3%
20	Pre-Trial, Trial & Appellate Processes	46.7	7%	1.3%
21	Environmental Technical & Financial Assistance	44.1	58%	1.2%
22	Personnel Management Services	44.0	-3%	1.2%
23	Financial Assistance for Health Services	41.5	12%	1.2%
24	Alcoholic Beverage Merchandising	41.3	6%	1.2%
25	Administrative and Support Services (Corrections and State Police)	39.2	4%	1.1%

*Half-cent sales tax.
PCIA = Per capita, inflation-adjusted.
NA = Program had zero spending in FY 1999.
Source: Department of Accounts.

Table 11

Fastest Growing Programs by Function FY 1999 to FY 2001

Function & Program	PCIA % Growth
Education	
State Education Services	55%
Financial Assistance for Cultural and Artistic Affairs	21%
Higher Education Research	15%
Financial Assistance for Public Education (Categorical)	15%
Museum and Cultural Services	12%
Administration of Justice	
Financial Assistance for Administration of Justice Services	22%
Administrative and Support Services (DOC, DJJ, others)	19%
Secure Confinement	13%
Criminal Justice Information Systems and Statistics	11%
Probation and Reentry Services	9%
Individual & Family Services	
Individual Care Services	23%
Child Support Enforcement Services	14%
Financial Assistance for Health Services	11%
Medical Assistance Services (Medicaid)	10%
Medical Assistance Services (Non-Medicaid)	10%
Resource & Economic Development	
Administrative and Support Services (DACS, DL&I, DHCD)	116%
Leisure and Recreation Services	63%
Environmental Technical and Financial Assistance	58%
Regulation of Public Facilities and Services	23%
Environmental Resources Management	22%
Transportation	
Airport Assistance	122%
Administrative and Support Services (VDOT, DMV, DRPT)	32%
Ground Transportation System Safety	22%
Mass Transit Assistance	21%
Port and Port Facility Management	18%
General Government	
Personal Property Tax Relief Program	198%
Financial Assistance to Localities-General	44%
Bond and Loan Retirement and Redemption	25%
Defense Preparedness	11%
Enactment of Laws	7%
Enterprises	
Transportation Pool Services	8%
Automated Data Processing Services	8%
Alcoholic Beverage Merchandising	5%
Rehabilitative Industries	4%
Higher Education Auxiliary Enterprises	3%

PCIA = Per capita, inflation-adjusted.
Note: Includes only programs with at least $10 million in appropriations in FY 1999.
Source: JLARC staff analysis.

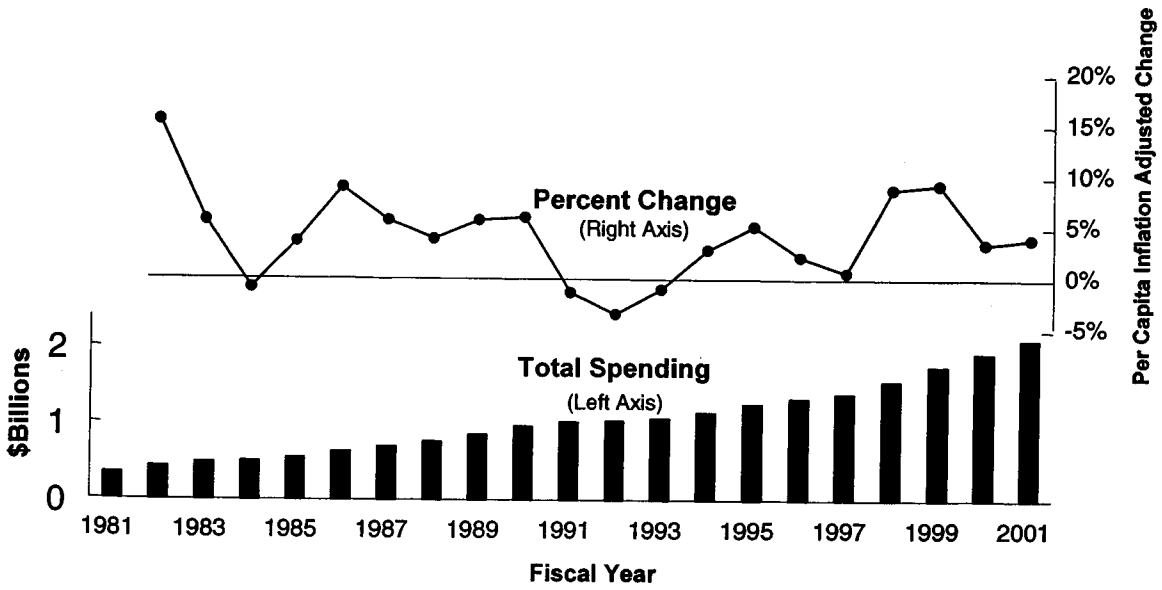
FUNCTIONAL PROFILES: HOW THE FUNCTIONAL AREAS GREW

The following pages contain profiles of spending growth by functional area. The charts presented on each page depict two measures of spending. The bars represent total annual spending, measured on the left axis. The line chart presents annual, per capita, inflation-adjusted percent change in spending measured on the right axis. The text discusses the charts and provides additional, summary details about the functional area and the largest programs within each function.

An analysis of spending since FY 1981 reveals that the State's priorities varied somewhat from year to year. Spending in some functions decreased, and spending in other functions increased, depending on the circumstances such as economic downturns, periods of rapid revenue growth, or major revenue policy initiatives. Overall, education and individual and family services accounted for the bulk of total spending increases. In addition, specific fast growing programs such as personal property tax relief caused formerly small functional areas like general government to become substantially larger spending items.

Profile 1

Administration of Justice Functional Area



Source: JLARC staff analysis of *Comprehensive Annual Financial Reports,* Department of Accounts.

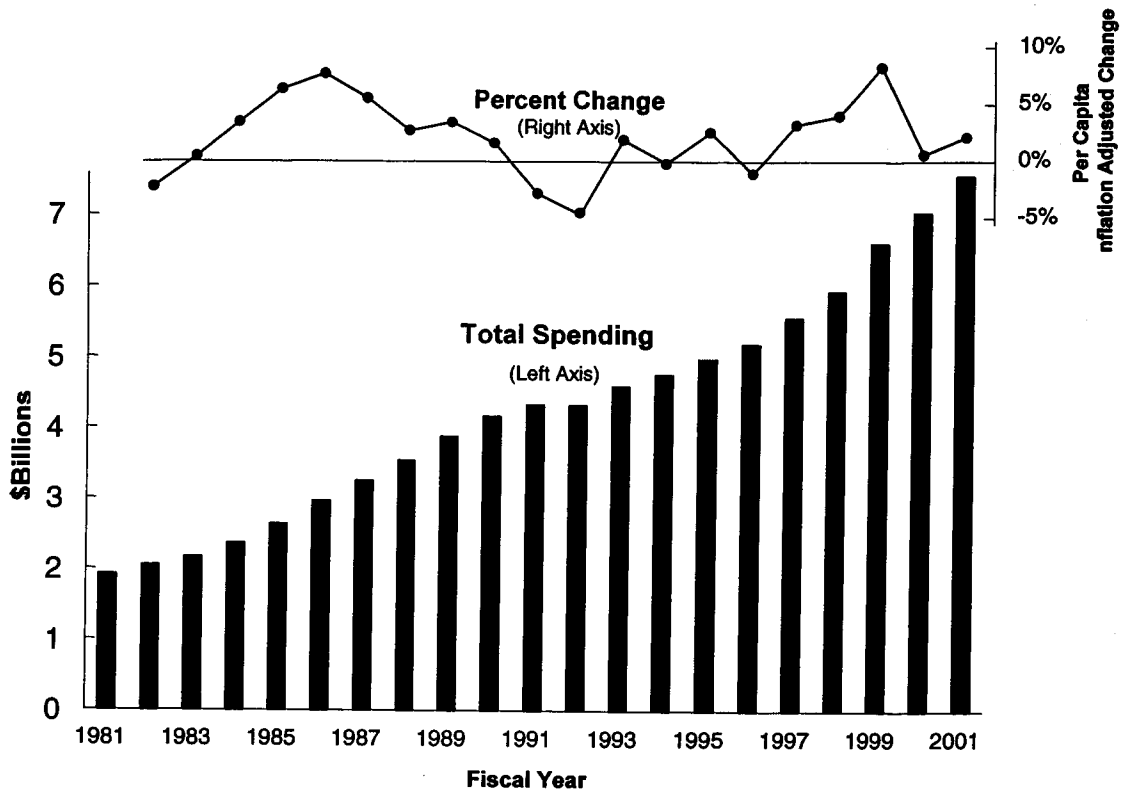
The administration of justice function includes efforts related to civil and criminal justice, including apprehension, trial, punishment, and rehabilitation of law violators. Spending on the administration of justice function totaled $2.1 billion in FY 2001, or $291 per person in the Commonwealth. This represents a $1.8 billion dollar increase over FY 1981 spending, or an adjusted increase of 131 percent. This increase accounted for 9.5 percent of all spending growth since FY 1981. General funds comprised 92 percent of the overall administration of justice function's budget in FY 2001.

The annual spending pattern (bars) shows an increasing trend with some acceleration in the last few years. Adjusting for population growth and inflation, spending increased at an average annual rate of 4.4 percent, almost double the 2.3 percent for total spending. The overall pattern shows periods of relatively steady annual growth in the late 1980s and again in the last five years, sandwiching a three-year period of real decreases in spending.

The five largest programs under the administration of justice function in FY 2001 were crime detection, investigation, and apprehension ($499 million), secure confinement ($469 million), pretrial, trial and appellate processes ($288 million), administrative and support services ($285 million), and financial assistance for confinement in local facilities ($130 million). Together these five programs represented $1.7 billion, or 80 percent, of FY 2001 administration of justice spending.

Profile 2

Education Functional Area



Source: JLARC staff analysis of *Comprehensive Annual Financial Reports,* Department of Accounts.

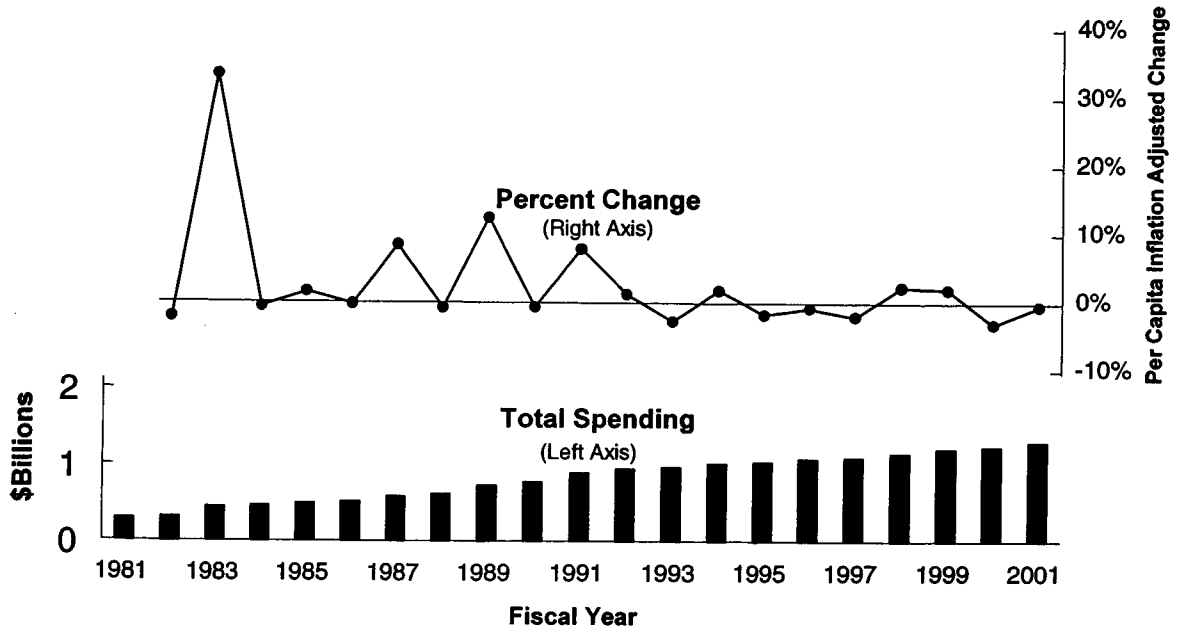
The education function involves efforts intended to assist individuals in developing knowledge, skills, and cultural awareness. It includes higher education as well as elementary and secondary education programs. Spending on education totaled over $7.6 billion in FY 2001, or $1,053 per person in the Commonwealth. This represents a $5.7 billion dollar increase over FY 1981 spending, or an adjusted increase of 48 percent. This increase accounted for 30.5 percent of all spending growth since FY 1981. General funds comprised 76 percent of the overall education function's budget in FY 2001.

Annual spending (bars) increased almost continuously since FY 1981. Adjusting for population growth and inflation, spending increased at an average annual rate of 2.0 percent, slightly less than the 2.3 percent for total spending. Spending growth increased in the early and mid 1980s. This was followed by a long slide in spending growth from FY 1986 until FY 1992, when spending shrank five percent over the previous year. Spending was up and down through FY 1996 and returned to positive growth rates from FY 1997 to FY 2001.

The largest programs under the education function in FY 2001 were financial assistance for public education (SOQ) ($2.6 billion), higher education instruction ($1.2 billion), financial assistance for special State revenue sharing ($888 million), financial assistance for educational and general services ($609 million), and categorical financial assistance for public education ($406 million). Together these five programs represented $5.8 billion, or 76 percent, of FY 2001 education spending.

Profile 3

Enterprises Functional Area



Source: JLARC staff analysis of *Comprehensive Annual Financial Report*, Department of Accounts.

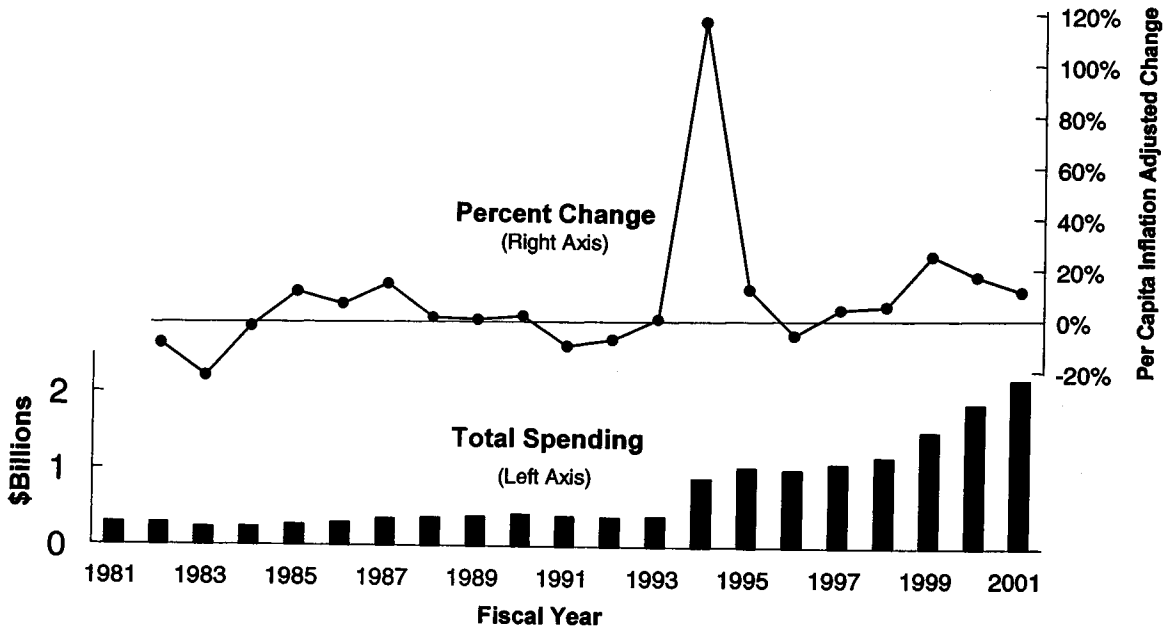
The enterprises function involves the sale of commodities or the provision of services for charge. These activities typically are self-supporting. Spending in the enterprises functional area totaled $1.3 billion in FY 2001, or $179 per person in the Commonwealth. This represents a $1.0 billion increase over FY 1981 spending, or an adjusted increase of 69 percent. This increase accounted for 5.4 percent of all spending growth since FY 1981. General funds comprised just one percent of the overall enterprises' function budget in FY 2001.

Annual spending (bars) shows a steady increase over the entire timeframe. Adjusting for population growth and inflation, spending increased at an average annual rate of 3.0 percent annually, faster than the 2.3 percent rate for total spending. Year to year, spending in this function was somewhat erratic. Real spending decreased in seven of the 21 years and showed zero growth in four years.

The largest programs in the enterprises function in FY 2001 were higher education auxiliary enterprises ($624 million), alcoholic beverage merchandising ($275 million), distribution of lottery prize payments ($115 million), state lottery operations ($74 million), and telecommunications services ($52 million). These five programs accounted for $1.1 billion, or 89 percent of function spending.

Profile 4

General Government Functional Area



Source: JLARC staff analysis of *Comprehensive Annual Financial Reports*, Department of Accounts.

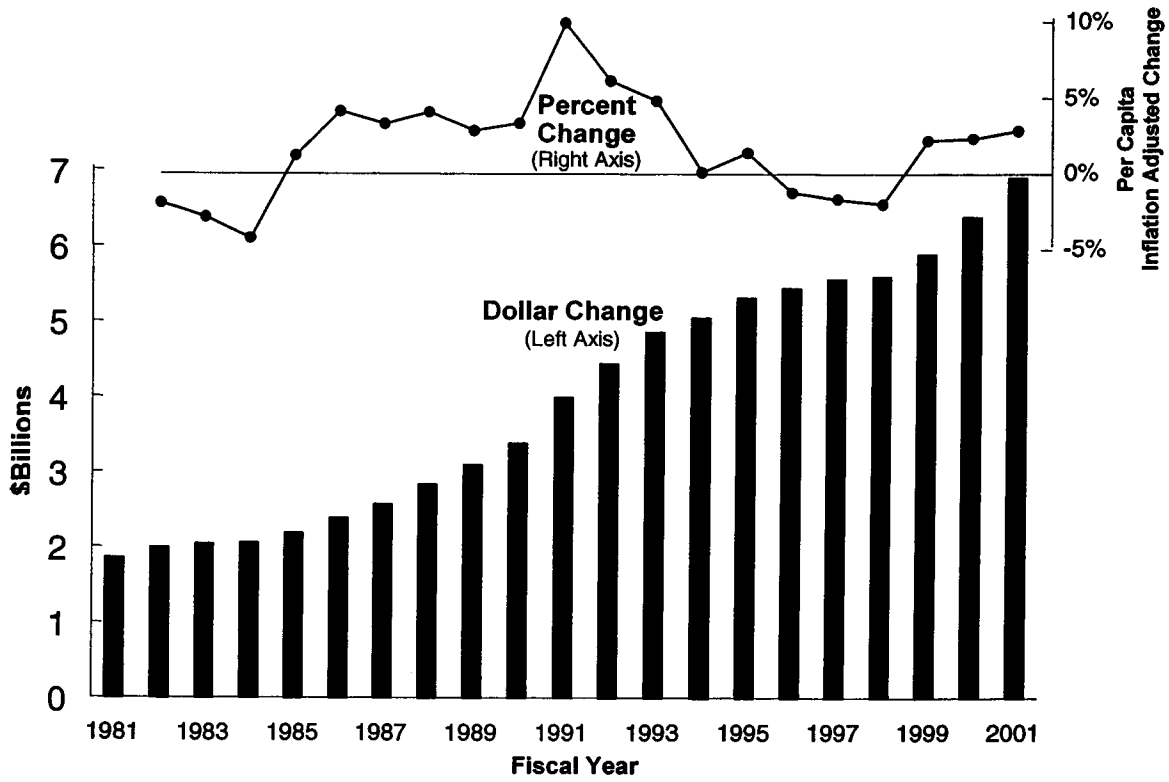
The general government function involves efforts to support the general activities of state, regional and local levels of government. Spending under this function exceeded $2.2 billion in FY 2001, or $306 per person in the Commonwealth. This represents a $1.9 billion increase over FY 1981 spending, or an adjusted increase of 184 percent. This increase accounted for 10.3 percent of total spending growth since FY 1981. General funds comprised 83 percent of the general government budget in FY 2001.

Annual spending (bars) shows very little change until 1994 when spending doubled. Spending increased rapidly in the last three years. Adjusting for population and inflation, spending increased at an annual average rate of 7.8, over three times the 2.3 percent rate for total spending. Adjusted changes (line chart) shows negative to slightly positive growth through the early 1990s. The spike in growth of 116 percent occurred in 1994 as a result of more than $600 million in debt issued the previous year. Double-digit growth also occurred in the last three years of the data, due to car tax relief.

The largest programs under the general government function in FY 2001 were personal property tax relief ($604 million), personnel management services ($598 million), financial assistance to localities-general ($280 million), bond and loan retirement redemption ($240 million), and revenue administration services ($77 million). These five programs accounted for $1.8 billion, or 82 percent, of spending on general government.

Profile 5

Individual and Family Services Functional Area



Source: JLARC staff analysis of *Comprehensive Annual Financial Reports,* Department of Accounts.

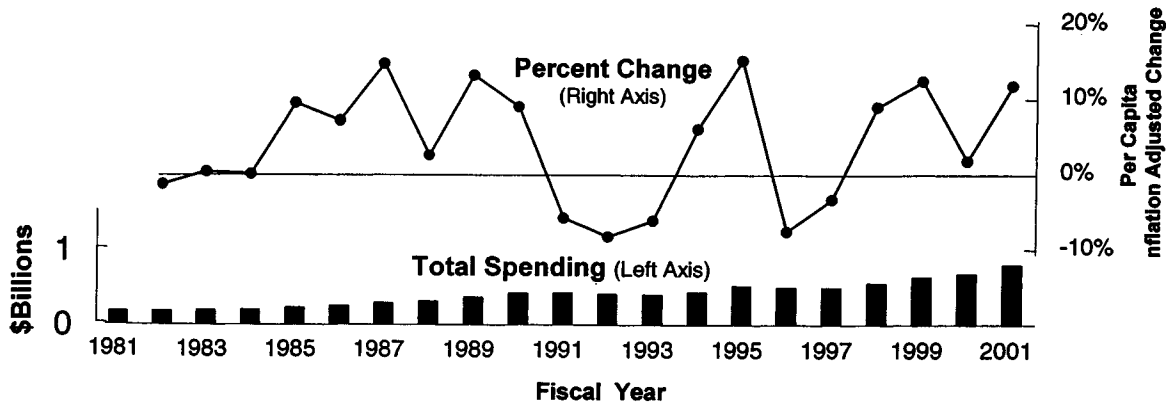
The individual and family services function involves efforts to support the economic, social, and physical well-being of the individual and/or family. Spending on individual and family services totaled $6.9 billion in FY 2001, or $960 per person in the Commonwealth. This represents a $5.0 billion increase in FY 2001 spending over FY 1981 spending or an adjusted increase of 40 percent. This increase accounted for 27.2 percent of all spending growth since FY 1981. General funds comprised 35 percent of State spending on the individual and family services function budget in FY 2001.

Annual spending (bars) shows a steady increase except for two periods of rapid growth, one in the late 1980s to early 1990s, and again over the last few years. Adjusting for population and inflation (line), spending decreased for several years in the early 1980s. The adjusted rate of growth also declined in all but one year between 1991 to 1998, with three years of real decreases in fiscal years 1996, 1997, and 1998. Positive growth rates resumed in the last three years of the period.

Spending under the individual and family services function in FY 2001 was dominated by medical assistance services (Medicaid) ($3.0 billion), followed by state health services ($761 million), child support enforcement services ($491 million), employment assistance services ($451 million), and administrative and support services ($323 million). These five programs account for almost $5.1 billion, or 73 percent, of spending in this function.

Profile 6

Resource and Economic Development Functional Area



Source: JLARC staff analysis of *Comprehensive Annual Financial Reports,* Department of Accounts.

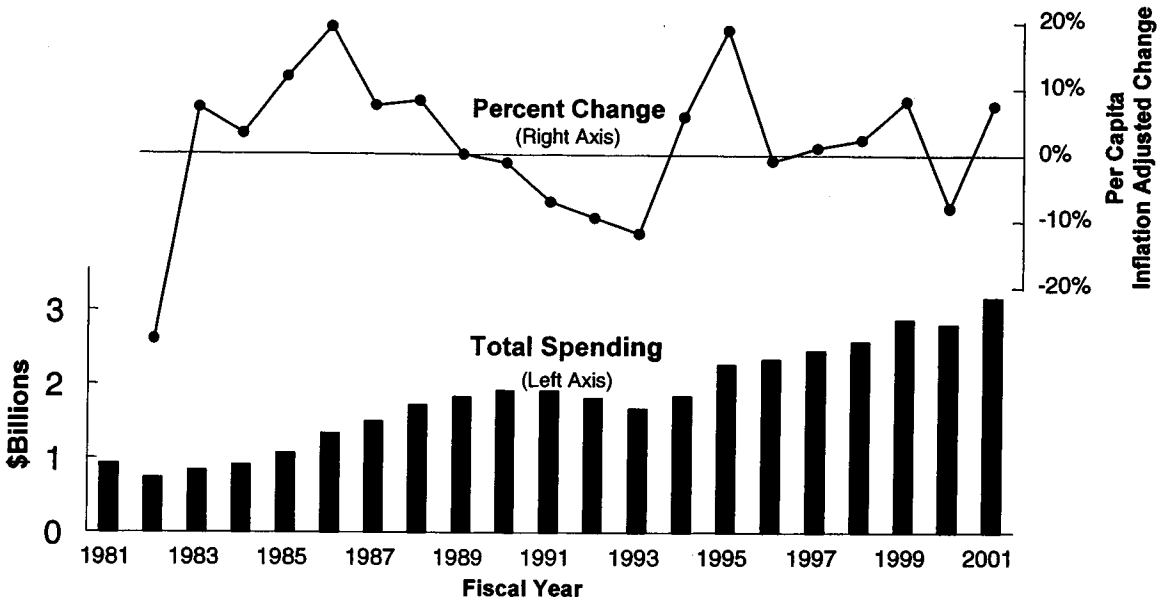
The resource and economic development function involves efforts to develop the State's economic base, including natural resources, and to regulate them with regard to varied public interests of the Commonwealth. Spending in the Resource and Economic Development function totaled $790 million in FY 2001, or $110 per person in the Commonwealth. This represents a $646 million increase over FY 1981 spending, or an adjusted increase of 105 percent. This increase represented 3.5 percent of all spending growth since FY 1981. General funds comprised 45 percent of the resource and economic development function budget in FY 2001.

Annual spending (bars) has been erratic, with nominal decreases in 1991 to 1993 and 1996 to 1997, and substantial increases in the last few years. Adjusting for population and inflation, spending grew at an annual average rate of 3.9 percent, much faster than the 2.3 percent for total spending. Adjusted spending (line) has been even more erratic, with spending stagnant in the early 1980s, growing in the late 1980s, and showing real decreases in the 1990s. The functional area returned to positive growth rates in recent years.

The major programs under this function in FY 2001 were environmental technical and financial assistance ($102 million), industrial development services ($68 million), environmental resources management ($59 million), economic development research, planning and coordination ($50 million), and land management ($49 million). Together these five programs account for $328 million, or 42 percent, of total function spending.

Profile 7

Transportation Functional Area



Source: JLARC staff analysis of *Comprehensive Annual Financial Reports,* Department of Accounts.

The transportation function involves efforts related to the movement of people, goods, and services and their regulation. Spending on the transportation function totaled $3.2 billion in FY 2001, or $439 per person in the Commonwealth. This represents a $2.2 billion increase over FY 1981 spending, or an adjusted increase of 28 percent. This increase accounted for 12.1 percent of all spending growth since FY 1981. General funds comprised ten percent of the transportation function budget in FY 2001.

Annual spending (bars) shows several nominal decreases including 1982, and several years in the early 1990s. Adjusting for population and inflation, spending grew at an average annual rate of 1.8 percent, slower than the 2.3 percent rate for total spending. Adjusted spending (line) reveals a period from 1986 to 1993 in which the rate of growth in transportation spending decreased, culminating in four years of real spending decreases. Transportation spending growth rates varied since then from positive 20 percent to negative 8 percent.

The largest programs in the transportation function in FY 2001 were highway system acquisition and construction ($1.5 billion), highway system maintenance ($834 million), financial assistance to localities for ground transportation ($229 million), administrative and support services ($147 million), and mass transit assistance ($140 million). These programs account for $2.8 billion, or 89 percent, of total spending on the transportation function.

III. Budget Growth in State Agencies and Programs

An important goal of this report is to identify the programs and agencies that grew the most (in dollars) and had the highest growth rates (in percentage terms) since FY 1981. Chapter II examined *spending* trends within the seven broad functional areas of State government. This chapter will look more closely at 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 the information is available at the necessary level of detail (the agency level from FY 1981, and at the program level from FY 1983). Further, appropriations are familiar to legislative and executive branch decision-makers as well as to the general public. 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 major agency-level differences in appropriations between FY 1981 and FY 2001, identifies the largest and fastest growing agencies by fund type, and identifies the major budget-driver agencies and programs.

CHANGES IN AGENCY BUDGETS FROM FY 1981 TO FY 2001

The State budget was much smaller in FY 1981 than in FY 2001, but many patterns apparent in FY 1981 persisted throughout the period. The FY 1981 total State operating budget was $5.7 billion. The five largest agencies accounted for 54 percent of all operating funds (Table 12). The FY 2001 budget appropriated over $23.3 billion, but the top five agencies still accounted for 54 percent of the total (Table 13). In all, the 20 biggest-budget agencies in FY 1981 accounted for 89 percent of the budget. By FY 2001, the share of the budget accounted for by the 20 largest agencies declined slightly, to 83 percent, but still dominated the overall budget.

Fifteen agencies occur on both lists in Tables 12 and 13. By FY 2001, five of the largest agencies in FY 1981 dropped off the largest-agency list: 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 2001 list 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. Both lists include five higher education agencies.

Table 12

20 Largest Agencies in FY 1981 – Total Operating Appropriation

Rank	Agency	Total Appropriation FY 1981 (Millions of Dollars)	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*	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	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%**

*Did not exist in FY 1981; item includes any predecessor programs identified by DPB that were in other agencies at the time.
Source: JLARC staff analysis of the Acts of Assembly.

Table 13

20 Largest Agencies in FY 2001 – Total Operating Appropriation

Rank	Agency	Total Appropriation (Millions of Dollars)	Percent of Total
1	Department of Education	$4,446.1	19.1%
2	Department of Medical Assistance Services*	3,053.7	13.1%
3	Department of Transportation	2,840.7	12.2%
4	Department of Social Services	1,221.0	5.2%
5	University of Virginia	1,151.8	4.9%
6	Department of Corrections	824.0	3.5%
7	Department of Mental Health, Mental Retardation & Substance Abuse Services	756.9	3.2%
8	Virginia Tech	625.4	2.7%
9	Personal Property Tax Relief*	572.4	2.5%
10	Virginia Commonwealth University	529.1	2.3%
11	Compensation Board	522.9	2.2%
12	Virginia Community College System	491.6	2.1%
13	Department of Health	420.8	1.8%
14	Virginia Employment Commission	411.6	1.8%
15	George Mason University	308.6	1.3%
16	Department of Criminal Justice Services*	284.8	1.2%
17	Department of Alcoholic Beverage Control	272.6	1.2%
18	Treasury Board	249.8	1.1%
19	Supreme Court	242.5	1.0%
20	Department of Juvenile Justice*	236.6	1.0%
	Top 20 Total	**$19,462.9**	**83.4%**
	Total Operating Budget	**$23,322.7**	**100.0%**

* Did not exist in FY 1981; item includes any predecessor programs identified by DPB that were in other agencies at the time.
Source: JLARC staff analysis of the Acts of Assembly.

The Department of Education was the largest agency, accounting for over 19 percent of the budget in both years. In both years, the Department of Social Services was the fourth largest agency budget, although its share of total appropriations fell over the period. A major difference was the relative decrease in the share accounted for by the Virginia Department of Transportation (VDOT). VDOT and the Department of Medical Assistance Services (DMAS) switched places over the 21-year period. By FY 2001, VDOT also accounted for a smaller share of the budget, down from 17 percent to 12.2 percent, while DMAS increased its share from 7.6 percent to 13.1 percent. Finally, the number five spot in FY 1981 was held by the Virginia Employment Commission (VEC). Due to the recession at that time, VEC would have been playing a more prominent role in appropriations. In FY 2001, the University of Virginia held the number five spot, while VEC fell to 13th place. Higher education agencies occupied five of the top 20 spots in both FY 1981 and in FY 2001.

In all, the two lists of large agencies in FYs 1981 and 2001 (Tables 12 and 13) are not dramatically different as far as the relative priorities of services being provided by the State. The chief difference is the personal property tax relief program, which came into being late in this 21-year period, and by FY 2001 held the ninth rank in terms of total appropriations (Table 13).

Another key point about these two "top 20" lists is that, while only one agency had a $1 billion budget in FY 1981, by FY 2001 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 Funds

Of the agencies with the largest dollar increase in operating appropriations since FY 1981 (Table 14), the Department of Education leads the list with $3.3 billion in additional budget authority in FY 2001. The Department of Medical Assistance Services was second at $2.6 billion, VDOT was third with $1.9 billion, the University of Virginia fourth with $925 million, and the Department of Social Services fifth with $874 million. The personal property tax relief program grew quickly, having first received an appropriation in FY 1999 and growing by FY 2001 to seventh place on the overall list, with $572 million in appropriations.

The largest 21-year budget increases were in the agencies that represent the core State spending responsibilities: education (elementary and secondary as well as higher education), Medicaid, transportation, public safety, and general government activities. The item that falls outside these core functions, and has perhaps become a core governmental activity, is the personal property tax relief program.

Another feature of Table 14 is that higher education institutions occupy six of the 20 positions. These universities and colleges (including VCCS) accounted for almost $2.5 billion of the $17.6 billion increase for all agencies.

Table 14

Top 20 Agencies with Highest Growth in Total Operating Appropriations
FY 1981 to FY 2001

Rank	Agency	Change in Total Appropriation (Million Dollars)
1	Department of Education	$3,326.7
2	Department of Medical Assistance Services*	2,617.5
3	Department of Transportation	1,869.1
4	University of Virginia	925.1
5	Department of Social Services	874.0
6	Department of Corrections	668.5
7	Personal Property Tax Relief*	572.4
8	Dept. of Mental Health, Mental Retardation, Substance Abuse Services	537.8
9	Compensation Board	469.4
10	Virginia Tech	457.5
11	Virginia Community College System	343.5
12	Virginia Commonwealth University	308.3
13	Department of Health	297.1
14	George Mason University	277.9
15	Department of Criminal Justice Services	269.2
16	Department of Juvenile Justice*	226.2
17	Treasury Board	221.2
18	Supreme Court	195.3
19	Virginia Employment Commission	177.3
20	James Madison University	173.6
Top 20 Total Growth		**$14,807.6**
Total Operating Appropriations Growth		**$17,609.9**

*Did not exist in FY 1981; item includes any predecessor programs identified by DPB that were in other agencies at the time.

Source: JLARC staff analysis of the Acts of Assembly.

Turning to rates of agency growth, and focusing on agencies with at least $10 million in appropriations in FY 1981, Table 15 shows the nominal and inflation-adjusted percentage increases for agencies with the highest growth rates. Some of these fastest growing agencies also tend to have relatively small budgets. These small agencies can experience modest dollar growth that registers as large percentage increases. The Department of Criminal Justice Services, for example, grew at a high rate because its predecessor (the Division of Justice and Crime Prevention) had a relatively small budget of approximately $19 million in FY 1981. New responsibilities and funding (much of which is pass-through "599" funds) were added over the 21-year period, so that by FY 2001 the Department had a budget of $285 million.

Three agencies with high growth rates listed in Table 15 were relatively large-budget agencies in FY 1981, and became significantly larger over the period: the Department of Medical Assistance Services (a program within the Department of Health in FY 1981), the Department of Corrections, and the University of Virginia.

Explaining agency-by-agency causes for budget growth is key to understanding total budget growth. In the prior report on State spending, JLARC staff initiated a review of spending growth by agency in the form of agency profiles. These short reports address the major components of agency spending growth through interviews, surveys and data analysis. Profiles of nine of the ten largest agencies appeared in *Interim Report: Review of State Spending* (House Document 30 (2002)). Additional profiles will be included in an analysis of spending and efficiency opportunities to be completed in the fall, 2002. The remainder of this section identifies the largest and fastest growing agencies by source of funds, over the FY 1981 to FY 2001 period.

Agencies with the Largest Growth in General Funds

General fund revenues and appropriations are available 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.

In dollar terms, general fund growth was dominated by a few large agencies (Table 16). The Departments of Education, Medical Assistance Services, and Corrections accounted for 51 percent of general fund budget growth. The annual increases in these large-budget agencies exceed the total budget for most other agencies. Small percentage changes in the large-budget agencies can thus easily exceed the size (in nominal dollars) of much larger percentage changes in the small-budget agencies.

Topping the list in Table 16, once again, 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 Depart-

Table 15

Top 20 Agencies with Highest Rates of Growth in Total Operating Appropriations
FY 1981 to FY 2001

Rank	Agency	Nominal Increase	Inflation-Adjusted Increase
1	Department of Juvenile Justice*	2,168%	1,022%
2	Department of Criminal Justice Services*	1,719%	800%
3	George Mason University	905%	397%
4	Compensation Board	878%	384%
5	Department of Environmental Quality*	774%	332%
6	Treasury Board	772%	332%
7	Department of Medical Assistance Services*	600%	246%
8	Department of Taxation	453%	173%
9	Department of Corrections	430%	162%
10	James Madison University	418%	157%
11	Supreme Court	413%	154%
12	University of Virginia	408%	151%
13	Mary Washington College	378%	137%
14	Old Dominion University	341%	118%
15	Longwood College	334%	115%
16	State Corporation Commission	332%	114%
17	State Council of Higher Education for Virginia	320%	108%
18	Radford University	310%	103%
19	Department of Game and Inland Fisheries	308%	102%
20	Department of State Police	301%	99%

Note: Includes only agencies with at least $10 million in appropriations in FY 1981.
*Did not exist in FY 1981; item includes any predecessor programs identified by DPB that were in other agencies at the time.
Source: JLARC staff analysis of Acts of Assembly.

Table 16

Top 20 Agencies with Large Amounts of General Fund Growth
FY 1981 to FY 2001

Rank	Agency	Change in General Fund Appropriation (Million Dollars)
1	Department of Education	$3,043.9
2	Department of Medical Assistance Services*	1,261.1
3	Department of Corrections	578.3
4	Personal Property Tax Relief*	572.4
5	Compensation Board	465.2
6	Department of Transportation	325.6
7	Dept. Mental Health, Mental Retardation & Substance Abuse Services	304.9
8	Department of Criminal Justice Services*	236.2
9	Department of Juvenile Justice*	216.7
10	Treasury Board	214.5
11	Virginia Community College System	207.5
12	Supreme Court	194.6
13	Virginia Tech	164.2
14	Department of Social Services	153.8
15	Department of State Police	124.4
16	Comprehensive Services for At-Risk Youth & Families*	105.5
17	Revenue Stabilization Fund*	103.3
18	George Mason University	98.5
19	Virginia Commonwealth University	97.0
20	Department of Health	95.9
Top 20 Total Growth		**$8,563.5**
Total General Fund Budget Growth		**$9,610.6**

*Agency did not exist in FY 1981; item includes any predecessor programs identified by DPB that were in other agencies at the time.
Source: JLARC analysis of Acts of Assembly.

ment of Medical Assistance Services to the number two position in Table 16. The Department of Corrections had the third largest increase in terms of general fund budget growth. Personal property tax relief follows, an effort that is 100 percent general funded. The Department of Transportation, a mostly non-general funded agency, has seen increasing general fund growth and in fact, had the sixth largest increase.

A trio of public safety-related agencies are also in the top ten. These include the Compensation Board at fifth, the Department of Criminal Justice Services at eighth, and the Department of Juvenile Justice at ninth. The Department of Mental Health, Mental Retardation and Substance Abuse Services ranked seventh. Due to an increasing level (though not percentage) of debt financing, the Treasury Board falls in at the number ten 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 17). Two public safety-related agencies had the highest rates of growth in general funds: the Departments of Juvenile Justice 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 explain the high (fourth place) rank of the Department of Medical Assistance Services.

Agencies with the Largest 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 also account for a large share of non-general funds.

Of the agencies accounting for the largest share of non-general fund budget increases, the largest is the Department of Transportation, which receives the bulk of the motor fuels tax revenue as well as a portion of the State sales tax and a significant amount of federal funds (Table 18). 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.

The Department of Social Services is fourth on the list due largely to the growth of the child support enforcement program, which in FY 2001 served as a conduit for approximately $400 million in child support payments.

Four of the ten high growth agencies, in terms of non-general funds, were universities: the University of Virginia (3rd), Virginia Tech (5th), Virginia Commonwealth University (8th), and George Mason University (10th). Non-general funds

Table 17

Top 20 Agencies with High General Fund Growth Rates
FY 1981 to FY 2001

Rank	Agency	Nominal Rate of Increase	Inflation-Adjusted Rate of Increase
1	Department of Juvenile Justice*	2,078%	977%
2	Compensation Board	870%	380%
3	Treasury Board	749%	320%
4	Department of Medical Assistance Services*	670%	281%
5	George Mason University	533%	213%
6	Department of Environmental Quality*	454%	174%
7	Supreme Court	412%	153%
8	Department of Corrections	391%	143%
9	State Council of Higher Education for Virginia	355%	125%
10	Radford University	323%	109%
11	James Madison University	317%	106%
12	Department of Education	316%	106%
13	Old Dominion University	275%	85%
14	Department of State Police	247%	72%
15	Dept. of Mental Health, Mental Retardation & Substance Abuse Services	243%	70%
16	Department of Taxation	240%	68%
17	Norfolk State University	213%	55%
18	College of William & Mary	212%	54%
19	Department of Accounts	194%	45%
20	Virginia Community College System	192%	44%

Note: Includes only agencies with at least $10 million in general fund appropriations in FY 1981.
*Agency did not exist in FY 1981; item includes any predecessor programs identified by DPB that were in other agencies at the time.
Source: JLARC staff analysis of Acts of Assembly.

Table 18

Top 20 Agencies with Large Amounts of Non-General Fund Growth
FY 1981 to FY 2001

Rank	Agency	Change in Non-General Fund Appropriation (Millions of Dollars)
1	Department of Transportation	$1,543.5
2	Department of Medical Assistance Services*	1,356.3
3	University of Virginia	830.5
4	Department of Social Services	720.2
5	Virginia Tech	293.4
6	Department of Education	282.8
7	Dept. of Mental Health, Mental Retardation & Substance Abuse Services	232.8
8	Virginia Commonwealth University	211.3
9	Department of Health	201.2
10	George Mason University	179.5
11	Virginia Employment Commission	177.1
12	Central Appropriations (Excludes personal property tax relief)	142.3
13	Virginia Community College System	136.0
14	Department of Rail & Public Transportation*	133.4
15	Department of Motor Vehicles	126.2
16	James Madison University	121.4
17	Department of Corrections	90.1
18	College of William & Mary	86.3
19	Department of Environmental Quality*	80.6
20	Old Dominion University	78.3
Top 20 Total Growth		**$7,023.2**
Total Non-General Fund Budget Growth		**$8,013.2**

*Agency did not exist in FY 1981; item includes any predecessor programs identified by DPB that were in other agencies at the time.
Source: JLARC staff analysis of Acts of Assembly.

within the universities consist of payments from tuition, fees, sponsored (federal) research, and auxiliary enterprises.

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 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 non-general funds, it is again clear that higher education is a major source of budget growth (Table 19). Of the ten agencies with high 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 FY 1981 budget of $14 million, growing to $70 million in FY 2001, remaining relatively small throughout the period.

Growth in non-general funds is concentrated in a few agencies because – as is the case with general funds – the non-general fund budget is concentrated in a relatively small number of agencies. In dollar terms the top five agencies account for 59 percent of all the non-general fund budget growth since FY 1981 (Table 19).

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.

Table 19

Top 20 Agencies with High Growth Rates in Non-General Funds
FY 1981 to FY 2001

Rank	Agency	Nominal Increase	Inflation-Adjusted Increase
1	George Mason University	1,465%	674%
2	University of Virginia	562%	228%
3	Department of Medical Assistance Services*	547%	220%
4	James Madison University	485%	190%
5	Old Dominion University	431%	163%
6	State Corporation Commission	398%	146%
7	Virginia Tech	376%	135%
8	College of William and Mary	361%	128%
9	Virginia Community College System	340%	118%
10	Department of Social Services	315%	105%
11	Department of Game & Inland Fisheries	306%	101%
12	Radford University	300%	98%
13	Department of Health	273%	85%
14	Dept. of Mental Health, Mental Retardation & Substance Abuse Services	248%	72%
15	Department of Criminal Justice Services*	248%	72%
16	Department of Motor Vehicles	246%	71%
17	Norfolk State University	226%	61%
18	Department of Education	181%	39%
19	Department of Transportation	159%	28%
20	Virginia Commonwealth University	158%	28%

Note: Agencies with non-general fund budgets exceeding $10 million in FY 1981.
*Did not exist in FY 1981; item includes any predecessor programs identified by DPB that were in other agencies at the time.
Source: JLARC staff analysis of Acts of Assembly.

CHANGES IN AGENCY BUDGETS BEFORE AND AFTER FY 1997

Over time, the importance of any given agency to budget growth can change. Measuring budget growth over a shorter number of years may provide a more current picture of budget priorities. Throughout this report, a program's share of budget growth is used as a measure of how important that program is to total budget growth.

Agencies whose share of budget growth changed by the largest amount are identified in Table 20. The agencies in Table 20 contributed more to budget growth in the final four years of the study period (FY 1997 to FY 2001) than they did in the first 16 years of the study period (FY 1981 to FY 1997).

The agency or spending item experiencing the greatest change in the share of total spending growth after FY 1997 was the personal property tax relief program. This can be seen from Table 20:

> *Personal property tax relief, which came into existence in FY 1998, of course was not a factor in the budget until that time. Since that point, however, it has had a significant budgetary role. Table 20 indicates that personal property tax relief accounted for 9.2% of the total budget increase after FY 1997. That is, 9.2% of budget growth that went to other programs before 1997 was now going to personal property tax relief.*
>
> *Each percentage point difference in column four of Table 20 equals $62 million in additional spending since FY 1997. This means that the growing importance of personal property tax relief in the overall budget generated $570 million in new spending since FY 1997.*

The Department of Transportation (VDOT) accounted for 8.1 percent of all budget growth between FY 1981 and FY 1997. In the FY 1997 to FY 2001 period, VDOT was responsible for 15.3 percent of all budget growth, for a 7.2 percentage point difference. The growing prominence of VDOT in overall State spending meant that the agency accounted for an additional $446 million above what it would have been had pre-1997 trends persisted.

Some of the other agencies with the fastest growth since FY 1997 include:

- the non-personal property tax relief portion of Central Appropriations, which accounted for 3.4 percent more of budget growth since 1997 than it did prior to 1997 (when it represented a shrinking share of the budget);

Table 20

Agencies by Share of Budget Growth
FY1981 to FY1997 and FY1997 to FY2001

Agency	FY1981 to FY1997 Share	FY1997 to FY2001 Share	Difference or Change in Budget Share
Personal Property Tax Relief*	N/A	9.2%	9.2%
Department of Transportation	8.1%	15.3%	7.2%
Central Appropriations (Excludes personal property tax relief)	-0.7%	2.7%	3.4%
Department of Criminal Justice Services*	1.0%	2.6%	1.6%
Treasury Board	0.9%	1.9%	1.0%
Department of Corrections	3.6%	4.1%	0.5%
State Grants to Nonstate Agencies	0.1%	0.5%	0.4%
Department of Conservation and Recreation*	0.3%	0.7%	0.4%
Department of Alcoholic Beverage Control	0.2%	0.6%	0.4%
Virginia Tourism Authority*	N/A	0.3%	0.3%

*Did not exist in FY 1981; item includes any predecessor programs identified by DPB that were in other agencies at the time.
Source: Acts of Assembly, DPB, JLARC staff analysis.

- the Department of Criminal Justice Services, whose influence on budget growth rose by 1.6 percentage points, largely due to a General Assembly initiative to increase the funding of "599" payments to localities beginning in FY 2000; and

- the Treasury Board, which accounted for one percentage point more growth after 1997 than it did before 1997, due to growth in debt service payments in recent years.

This section has reviewed agency-level budget growth since FY 1997. Another way of examining budget growth is to consider the growth in the programs that comprise the overall State budget.

BUDGET GROWTH BY PROGRAM

Programs are a basic building block of the Virginia budget and provide a mechanism to identify and organize the State's activities and services. Budget programs like State health services or administration and support services may appear in several agencies; other programs, such as medical assistance services or air transportation system maintenance and operation may be unique to one agency. This section identifies the fastest growing budget programs over the period starting in FY 1983. Due to problems with data availability in the early years of this study (FYs 1981-1982), this interval is two years short of the period covered earlier in this report, yet 19 years still provides a relatively long-term perspective on Virginia budget history.

Growth in Budget Programs

Virginia's budget grew $16.9 billion since FY 1983. Most of this increase can be explained by growth in the programs listed in Table 21 – all of which grew by more than $100 million. Dollar amounts shown are the lump-sum differences in appropriation in FY 2001 over and above the FY 1983 appropriation. Table 21 also identifies the share of total budget growth represented by the program and the share of growth in the overall budget function that is accounted for by each program. For instance, the medical assistance services program, in the broad function of individual and family services, grew $2.45 billion over the period, accounting for 14.6 percent of total budget growth and 49.1 percent of budget growth in the individual and family services functional area.

As Table 21 indicates, the broad functional area of education experienced the largest amount of budget growth of all governmental functions – $5.3 billion and nearly 32 percent of all budget growth – between FY 1983 and FY 2001. Seven programs – four elementary and secondary education programs and three higher education programs – accounted for most of this growth. The largest increases in elementary and secondary education were financial assistance for public education (standards of quality), up $1.9 billion; financial assistance for special State revenue sharing, up $861 million; and financial assistance for public education (categorical), up $171 million.

The higher education budget programs with the most dollar growth were education and general programs, up $1.6 billion; financial assistance for educational and general services, up $405 million; higher education student financial assistance, up $117 million, and financial assistance for public school employee benefits, up $114 million (not shown on Table 21).

Table 21

Programs With the Most Growth in Appropriations FY 1983 to FY 2001*

Function or Program	Change FY83-FY01 ($ in Millions)	Share of Total Growth	Share of Function's Growth
Total Operating Budget Growth	**$16,846**	**100.0%**	
Education	**5,342**	**31.7%**	**100.0%**
Financial Assistance for Public Education (SOQ)	1,865	11.1%	34.9%
Educational and General Programs (Universities)	1,568	9.3%	29.4%
Financial Assistance for Special State Revenue Sharing	861	5.1%	16.1%
Financial Assistance for Educational & General Services	405	2.4%	7.6%
Financial Assistance for Public Education (Categorical)	171	1.0%	3.2%
Higher Education Student Financial Assistance	117	0.7%	2.2%
Administration of Justice	**1,679**	**10.0%**	**100.0%**
Crime Detection, Investigation & Apprehension	424	2.5%	25.2%
Secure Confinement	399	2.4%	23.8%
Pre-Trial, Trial & Appellate Processes	217	1.3%	12.9%
Administrative & Support Services	199	1.2%	11.8%
Individual and Family Services	**5,001**	**29.7%**	**100.0%**
Medical Assistance Services (Medicaid)	2,454	14.6%	49.1%
Child Support Enforcement Services	449	2.7%	9.0%
State Health Services	416	2.5%	8.3%
Financial Assistance for Individual & Family Services	253	1.5%	5.1%
Employment Assistance Services	228	1.4%	4.6%
Protective Services	227	1.3%	4.5%
Financial Assistance for Health Services	168	1.0%	3.4%
Administrative and Support Services (State Hospitals)	163	1.0%	3.3%
Administrative and Support Services (DMAS, DSS, Others)	126	0.7%	2.5%
Nutritional Services	121	0.7%	2.4%
Resource and Economic Development	**568**	**3.4%**	**100.0%**
No program grew by more than $100 million.	NA	NA	NA
Transportation	**2,173**	**12.9%**	**100.0%**
Highway System Acquisition and Construction	1,147	6.8%	52.8%
Highway System Maintenance	558	3.3%	25.7%
Mass Transit Assistance	126	0.8%	5.8%
General Government	**1,473**	**8.7%**	**100.0%**
Personal Property Tax Relief Program	572	3.4%	38.8%
Bond and Loan Retirement and Redemption	214	1.3%	14.5%
Financial Assistance to Localities-General	186	1.1%	12.6%
Revenue Stabilization Fund	103	0.6%	7.0%
Enterprises	**612**	**3.6%**	**100.0%**
Higher Education Auxiliary Enterprises	502	3.0%	82.0%

*Programs with at least $100 million growth over the period.
Source: Acts of Assembly, final legislative appropriations.

The broad governmental function with the second-largest dollar increase was individual and family services, up $5.0 billion for the 19-year period. This broad function includes Medicaid, welfare programs, child support enforcement, health and mental health services, and many related activities. The large and diverse function also had the most programs growing by more than $100 million – eleven (not all are shown in Table 21).

Within individual and family services, medical assistance services (Medicaid) grew the most in dollar terms over the period, $2.5 billion, accounting for 49 percent of the function's increase. Child support enforcement had the second largest increase. This program's $449 million increase was primarily non-general funds in the form of child support payments from non-custodial parents, and accounted for nine percent of growth in the function. The remaining programs with large dollar increases in this function were:

- State health services, up $416 million;
- financial assistance for individual and family services, up $253 million;
- employment assistance services, up $228 million;
- protective services, up $227 million;
- financial assistance for health services, $168 million;
- administrative and support services for State hospitals, up $163 million;
- administrative and support services for various Health and Human Resource agencies, up $126 million;
- nutritional services, up $121 million; and
- community health services, up $109 million.

The transportation function grew by $2.2 billion over the FY 1983 – 2001 period, making it the third largest increase among functions. Four transportation programs grew by more than $100 million. These were highway system acquisition and construction, up $1.1 billion; highway system maintenance, up $558 million; mass transit assistance, up $126 million; and financial assistance to localities for ground transportation, up $104 million.

Budget growth in the administration of justice function was almost $1.7 billion, the fourth largest increase by function. Four programs grew by at least $100 million. These were: crime detection, investigation, and apprehension, up $424 million; secure confinement, up $399 million; pretrial, trial, and appellate processes up $217 million; and administrative and support services for the Department of Corrections, up $199 million.

The general government function grew by almost $1.5 billion between FY 1983 and FY 2001. The largest increase came from the personal property tax relief program, up $572 million by FY 2001; bond and loan retirement and redemption, up $214 million; financial assistance to localities – general, up $186 million; and the FY 2001 deposit to the revenue stabilization fund of $103 million.

The remaining functional areas (enterprises, and resource and economic development) had just a single program with budget growth exceeding $100 million over the period. This was the higher education auxiliary enterprises program, which grew by $502 million. Although implemented by the State's colleges and universities, this program is classified under the enterprise function. This program represented 82 percent of all enterprises increases. There were no resource and economic development programs that increased as much as $100 million over the 19-year period.

Program Growth Since FY 1997

The final four-year period of this review, from FY 1997 through FY 2001, is distinguished from any other four-year period since FY 1983 by total budget growth of $6.2 billion, a growth rate of 24 percent (adjusted for population growth and inflation). Five programs contributed nearly half (47 percent) of this total overall growth. Highway system acquisition and construction, up $702 million, accounts for 11.3 percent of the period's budget growth (Table 22). The program with the second highest growth was medical assistance services, up $614 million or 9.9 percent of the four-year total growth.

A budget program new in this period – personal property tax relief – displayed the third largest increase, up $572 million over the period, accounting for 9.2 percent of all budget growth between FY 1997 and FY 2001. The fourth largest program increase was education and general programs at the universities, up $537 million. Fifth place was held by financial assistance for special State revenue sharing, up $496 million.

Table 22

20 Largest Program Increases FY 1997 to FY 2001

Rank	Program	Change in Appropriations FY97-FY01 ($ in Millions)	Share of Growth
1	Highway System Acquisition & Construction	$702.6	11.3%
2	Medical Assistance Services (Medicaid)	614.1	9.9%
3	Personal Property Tax Relief Program*	572.4	9.2%
4	Educational & General Programs (Part of Universities)	536.6	8.7%
5	Financial Assistance for Special State Revenue Sharing	496.2	8.0%
6	Financial Assistance for Public Education (SOQ)	431.6	7.0%
7	Secure Confinement	199.8	3.2%
8	Highway System Maintenance	186.4	3.0%
9	Crime Detection, Investigation, & Apprehension	179.5	2.9%
10	Child Support Enforcement Services	169.1	2.7%
11	Financial Assistance to Localities-General	129.3	2.1%
12	Higher Education Auxiliary Enterprises	121.7	2.0%
13	Bond & Loan Retirement & Redemption	120.8	2.0%
14	Financial Assistance for Individual & Family Services	105.8	1.7%
15	Protective Services	90.2	1.5%
16	Financial Assistance for Public School Employee Benefits	78.8	1.3%
17	Pre-Trial, Trial, & Appellate Processes	78.5	1.3%
18	Financial Assistance for Educational & General Services	78.1	1.3%
19	Financial Assistance From Tobacco Settlement*	77.3	1.2%
20	Financial Assistance for Health Services	75.8	1.2%
Top 20 Total Increases		**$5,044.6**	**81.5%**
Grand Total Operating Budget Increases		**$6,191.6**	**100.0%**

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

CONCLUSION

Appropriations grew by $17.6 billion between FY 1981 and FY 2001. This was a 308 percent increase before adjusting for inflation. Five agencies accounted for 55 percent of this growth: the Departments of Education, Medical Assistance Services, Transportation, Social Services, and the University of Virginia. Five programs accounted for 47 percent of the increase in the budget since FY 1983. These were medical assistance services (Medicaid), financial assistance for public education (SOQ), educational and general programs at the universities, highway system acquisition and construction, and financial assistance for special State revenue sharing.

Looking at budget programs, just seven programs also accounted for over half the total budget increase. In both FY 1981 and FY 2001, the 20 largest agencies accounted for more than 80 percent of the budget. Long-term general fund growth is also dominated by a few large agencies, as is long-term growth in non-general funds.

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 dominated the State budget over 21 years reflect core spending priorities of the State. The personal property tax relief program has grown rapidly, accounting for the largest single amount (nine percent) of budget growth since FY 1997. As such, it may also have become a core spending priority of the State.

IV. How Virginia Spending Ranks Among the States

Spending by state governments partly reflects the unique economic, demographic, historical, and political character of each state. States' needs for services vary, as do their abilities to address these needs. Some states have chosen to provide more or less in the way of services and programs, and these differences can be seen and compared through rankings of state spending. Such levels of spending can also be misleading. In some cases, a state ranks high among the 50 states in spending on a function because that state's government is one of few to directly provide the service. In other cases, a state may rank low in spending because another level of government, such as localities, may raise the revenue and provide the service. Highway maintenance is a case in point.

> *In Virginia, maintenance of almost all roads is a State responsibility, accounting for $821 million or 29 percent of VDOT's FY 2001 budget. VDOT employees located throughout the State perform most routine maintenance. Most other states assign road maintenance to a variety of local governmental units.*

Consequently, a comparison of state spending alone necessarily omits some details that may help explain observed differences. Taken as a whole, however, State rankings can help provide perspective on the spending trends and priorities of Virginia's State government. The purpose of this chapter is to place Virginia's spending and priorities in the context of the 50 states and not necessarily to explain Virginia's spending patterns.

This chapter reviews spending data on all 50 states, as collected by the U.S. Census Bureau from 1981 to 1999 using the most recent data available. State governments across the nation saw substantial spending growth during this period. Virginia's spending (in terms of dollars) grew slightly less than the 50-state average. Based on the Census Bureau data, per capita, inflation-adjusted spending in Virginia grew by $1,363 between 1981 and 1999. The 50-state average increase over this period was $1,479. In percentage terms, however, Virginia's spending growth rate was slightly faster than the 50-state average. Virginia spending grew by 65 percent compared to the 50-state average increase of 61 percent. This is in part due to the State's relatively lower spending base in 1981.

Census Bureau Data Allows Interstate Comparisons

The remainder of this section focuses on how Virginia's ranking, in terms of the Census Bureau's 50-state spending data, changed between 1981 and 1999. This data is adjusted for both the effects of inflation and population growth.

Data presented in this chapter should not be compared to numbers presented elsewhere in this report for two reasons. First, the Census Bureau's functional classifications are similar to but not the same as Virginia's budget functions. The Census Bureau has used its classification scheme for all 50 states, grouping similar functions into the broader categories, making it easier to compare the states with each other but not necessarily reflecting any one state's internal budgetary classifications.

A second reason for not comparing data from this chapter with information elsewhere in the report is that the per capita, inflation adjustments used in this chapter rely on different time periods than the rest of the report: 1981 to 1999 compared to 1981 to 2001. This two-year difference in the ending point may cause substantially different rates of growth, for example.

With these constraints, a state's spending rank among all states in terms of the Census Bureau's functional categories gives a reasonable picture of state-level spending needs and priorities. The following pages contain profiles that plot Virginia's rank among all the states from 1981 to 1999. Each profile also provides some interpretation and context for the major trends, and compares Virginia's change in rank to the five bordering states: Maryland, West Virginia, Kentucky, Tennessee, and North Carolina.

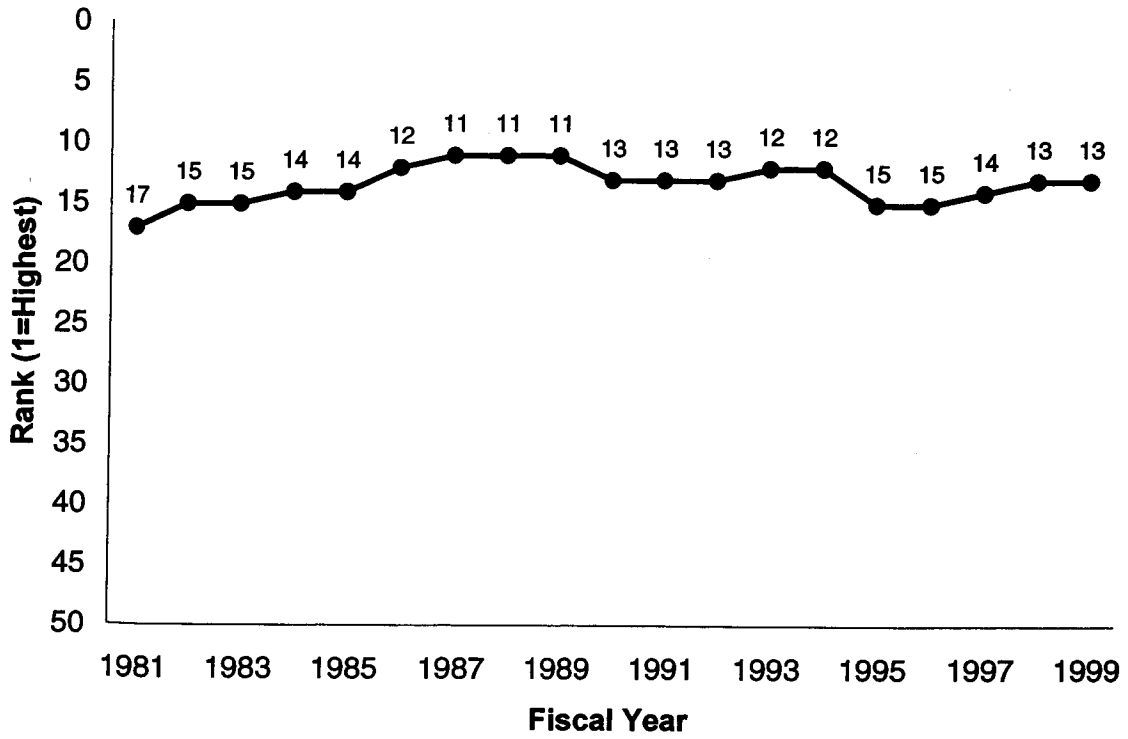
It is important to note that, in these profiles, Virginia's spending rank reflects not just Virginia's budget priorities but also reflects how Virginia's budget priorities compare to the budget priorities of other states. A state's rank provides a good relative indicator of spending priorities as compared to all states.

To summarize the following profiles, Virginia spends less per person than most other states on the functions of government. By contrast, Virginia has a relatively higher per capita income than most states but historically has had a lower level of per capita tax revenues collected than most states, and Virginians spend less of their income on State and local taxes than citizens of most other states. Increases in spending in Virginia between 1981 and 1999 did not result in a substantial change in Virginia's position relative to the other states – in other words, Virginia's overall spending did not move very far up or down over the period, but stayed about where it was, despite the Commonwealth's increased spending.

In terms of spending by function, Virginia tends to devote more resources than other states to the public safety and transportation functions. Virginia spending per capita on education (including higher education and elementary and secondary education) is ranked a few positions below the middle of the 50 states. Virginia historically has spent less per capita than most other states on the Census Bureau's functional classifications of public welfare and health care, natural resources and parks, and general government, debt and other activities.

Profile 8

Virginia's Rank: Personal Income Per Capita



Virginia is a relatively wealthy state. Its personal income rank per capita was 17th in 1981 and rose to 11th through 1989. The recession and other events in the 1990s lowered Virginia's rank in the mid to low teens. The State improved its position again to 13th in FY 1999. Between 1981 and 1999 Virginia's rank rose four positions, while the five bordering states saw their personal income rank rise an average of 5.4 positions. Virginia's personal income per capita remained higher than all bordering states except Maryland in both 1981 and 1999.

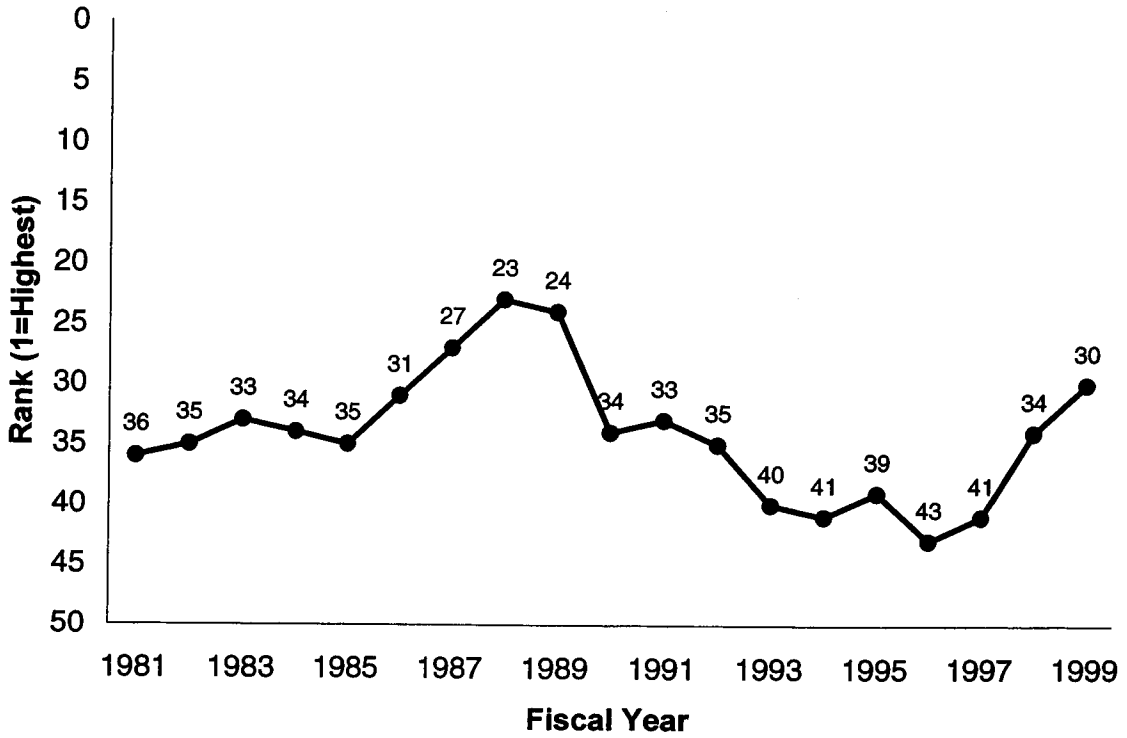
Ranking of Bordering States by Personal Income Per Capita

State	1981	1985	1991	1995	1999
Kentucky	45	47	43	43	41
Maryland	7	4	5	5	5
North Carolina	44	36	32	27	29
Tennessee	43	38	36	30	34
West Virginia	46	49	49	49	49
Virginia	17	14	13	15	13

Source: Rankings from JLARC staff analysis of U.S. Census Bureau, Government Finances Survey.

Profile 9

Virginia's Rank: Total State Tax Revenues Per Capita



Except for the late 1980s, Virginia has been a relatively low-tax state. The State's rank in per capita amount of taxes collected has varied since 1981. Over most of the period Virginia was ranked in the mid-thirties. A booming economy and an increase in transportation fund revenues pushed Virginia into the top half of states, briefly reaching 23rd place by 1988. Declining revenue in the early 1990s reflects the disproportionate impact of the national recession on Virginia and Virginia's status of being one of the few states to not increase taxes in response to the recession. For several years in the mid 1990s Virginia's rank fell into the low 40s, but increased to 30th in FY 1999.

Between 1981 and 1999, Virginia's tax revenue rank rose six positions while the five bordering states experienced an average increase of 3.2 positions. Thus, relative to the bordering states, Virginia saw its tax revenue rank increase more than the combined average of Kentucky, Maryland, North Carolina, Tennessee, and West Virginia.

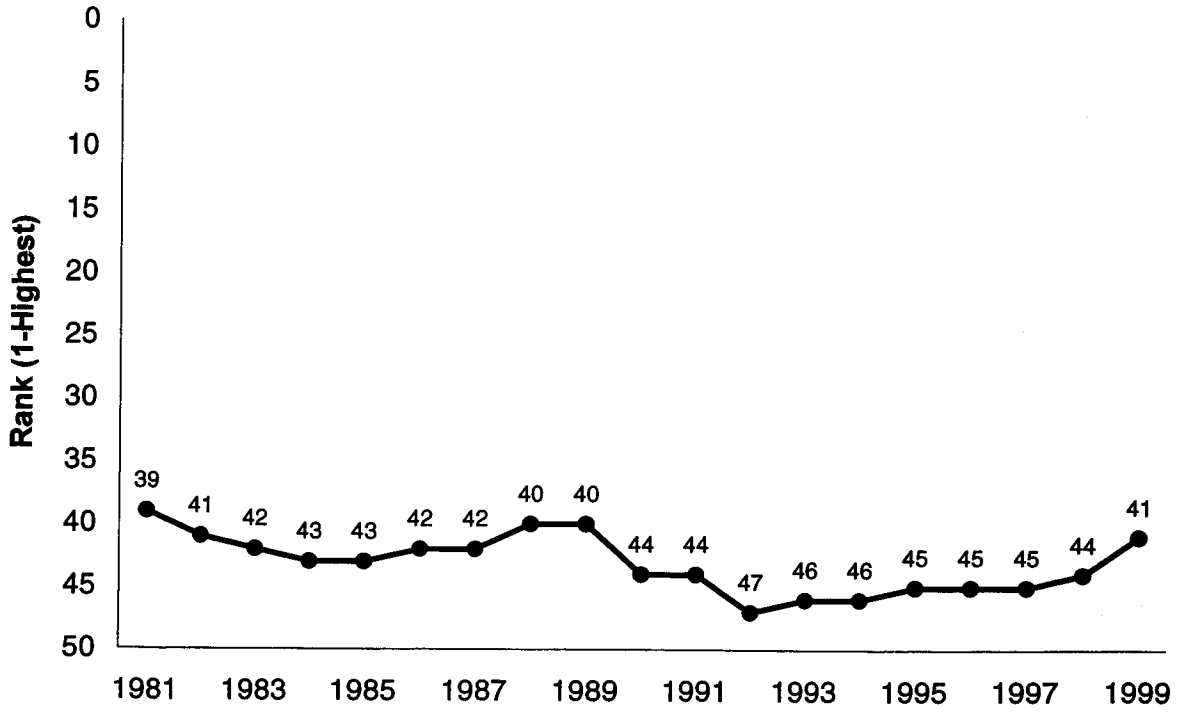
Ranking of Bordering States by Tax Revenues Per Capita

State	1981	1985	1991	1995	1999
Kentucky	25	28	13	15	18
Maryland	13	17	15	16	19
North Carolina	31	26	26	17	17
Tennessee	49	48	48	46	47
West Virginia	19	18	17	21	20
Virginia	36	35	33	39	30

Source: Rankings from JLARC staff analysis of U.S. Census Bureau, Government Finances Survey.

Profile 10

Virginia's Rank: State Taxes as a Percentage of Personal Income



Throughout the period of this review, Virginia has ranked among the eleven lowest states in the proportion of personal income required for State taxes. Virginia's rank nudged upwards in the late 1980s, reflecting the transportation-related tax increases implemented in 1986 and 1987. Virginia coped with the national recession of the early 1990s without raising taxes, and this indicator declined. By 1992, Virginia was 47th out of the 50 states in the proportion of income devoted to taxes. By the late 1990s, Virginia's ranking moved back to the lower 40s.

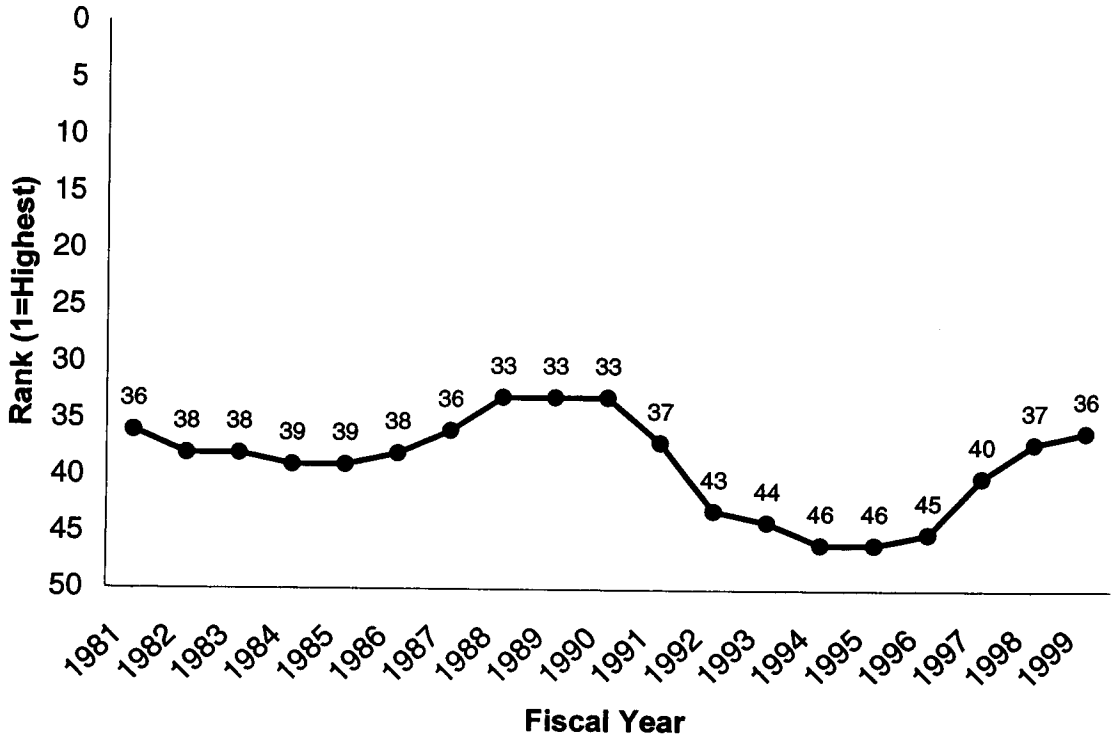
Ranking of Bordering States by Taxes as Percent of Personal Income Per Capita

State	1981	1985	1991	1995	1999
Kentucky	10	13	5	5	10
Maryland	33	37	38	37	42
North Carolina	20	24	25	17	19
Tennessee	45	42	47	46	46
West Virginia	6	3	4	6	5
Virginia	39	43	44	45	41

Source: Rankings from JLARC analysis of U.S. Census Bureau, Government Finances Survey.

Profile 11

Virginia's Rank: Total State Spending Per Capita



Compared to other states, Virginia is a low spending state. This is directly related to the relatively low level of tax revenue collected by Virginia. In total spending, Virginia was in the bottom third between 1981 and 1999 and in the bottom fifth for much of the 1990s. The most noticeable features of the chart are the relatively stable rankings, between 36th and 39th; the short-term move to 33rd for three years in the late 1980s; and the fairly rapid drop to the mid-40s in the 1990s. Virginia began to increase its spending rank equally dramatically over the late 1990s and stood at 36th in 1999 – the same relative position it held in 1981.

In 1981 and again in 1999, Virginia's total spending rank was 36th. Over that period, the five bordering states moved up slightly, for an average change in rank of +0.8 positions.

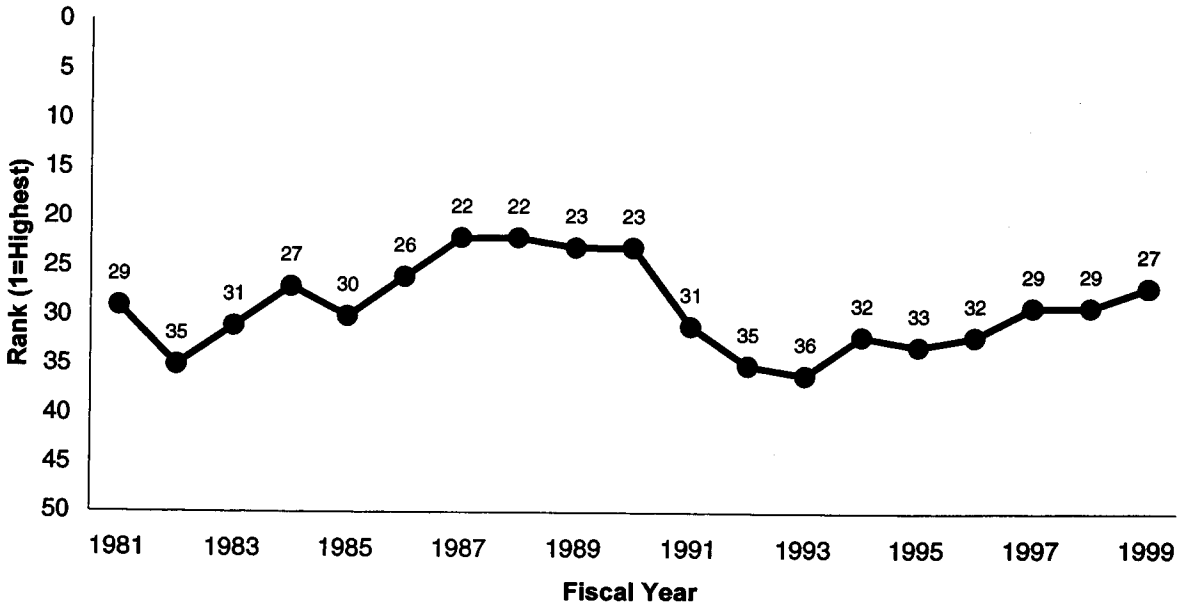
Ranking of Bordering States by Total Spending Per Capita

State	1981	1985	1991	1995	1999
Kentucky	23	33	28	29	22
Maryland	22	25	20	28	32
North Carolina	39	40	32	32	30
Tennessee	47	49	48	47	48
West Virginia	12	18	19	18	15
Virginia	36	39	37	46	36

Source: Rankings from JLARC staff analysis of U.S. Census Bureau, Government Finances Survey.

Profile 12

Virginia's Rank: State Spending Per Capita on Education (K-12 and Higher Education)



Historically, Virginia's rank in education spending has been in the middle of all the states. This function combines State funding for higher education as well as elementary and secondary education. The chart shows increasing relative spending through the 1980s and a decrease from 1988 to 1993. Perhaps the most notable feature was the impact of the 1990s recession. Since 1993, Virginia's rank in education spending increased.

The overall net change in Virginia's spending rank between 1981 and 1999 was an increase of two positions, from 29th to 27th. The five bordering states experienced an average decrease in their spending rank on education of 2.4 positions. According to *CQ's State Fact Finder 2002*, Virginia ranked 33rd in the percentage of the State's population enrolled in public schools in 2000-2001, and 18th in the percentage of the State's population enrolled in public institutions of higher education in 1999. Virginia's State funding on a per-pupil basis for elementary and secondary education ranked 37th among the states in FY 1999.

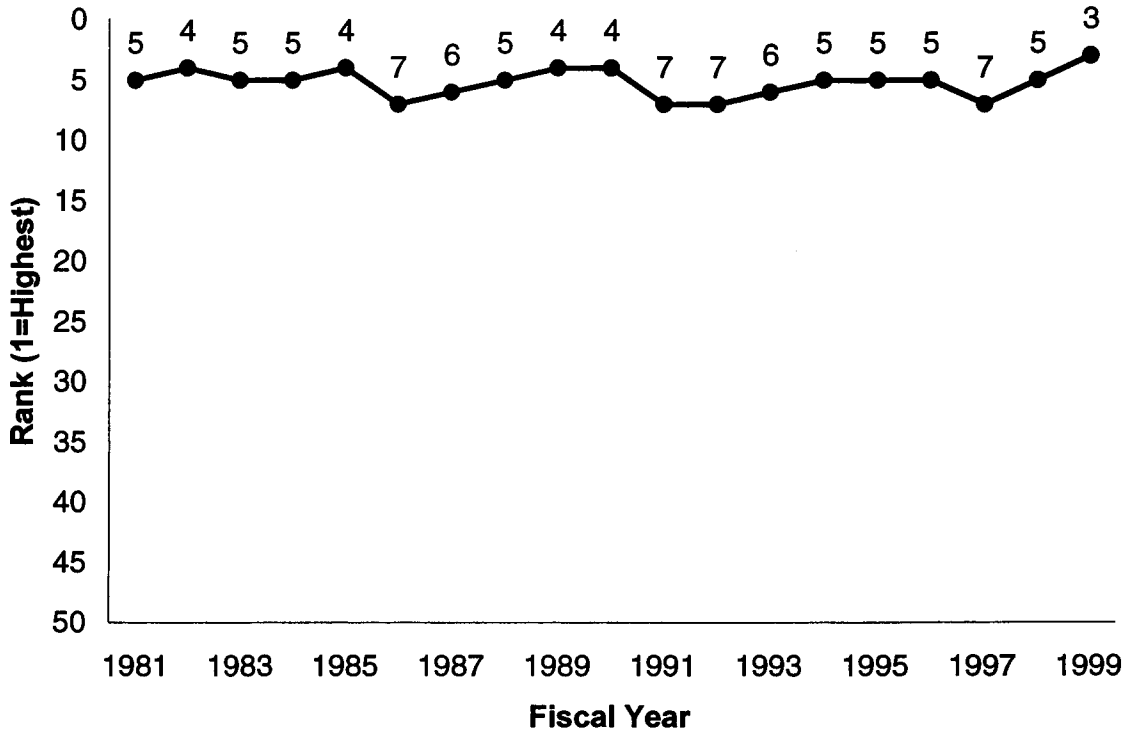
Ranking of Bordering States by Education Spending Per Capita

State	1981	1985	1991	1995	1999
Kentucky	18	23	16	17	24
Maryland	34	40	41	46	41
North Carolina	11	14	13	15	13
Tennessee	43	46	46	42	45
West Virginia	21	13	10	14	16
Virginia	29	30	31	33	27

Source: Rankings from JLARC staff analysis of U.S. Census Bureau, Government Finances Survey.

Profile 13

Virginia's Rank: State Spending Per Capita for Police Protection and Corrections



Virginia is one of the leading spenders on police protection and corrections. Throughout the review period, Virginia never fell below seventh place. The State was ranked third in 1999, its highest rank over the period.

In 1981, Virginia was ranked fifth and rose to third place by 1999. By contrast, the average change in ranking for the five bordering states was to fall 7.8 positions over the period.

Based on U.S. Department of Justice data, Virginia's correctional populations are in the middle tier of the 50 states. On a per capita basis for the year 2000, Virginia's number of inmates ranked 20th, and the number of persons on probation ranked 31st.

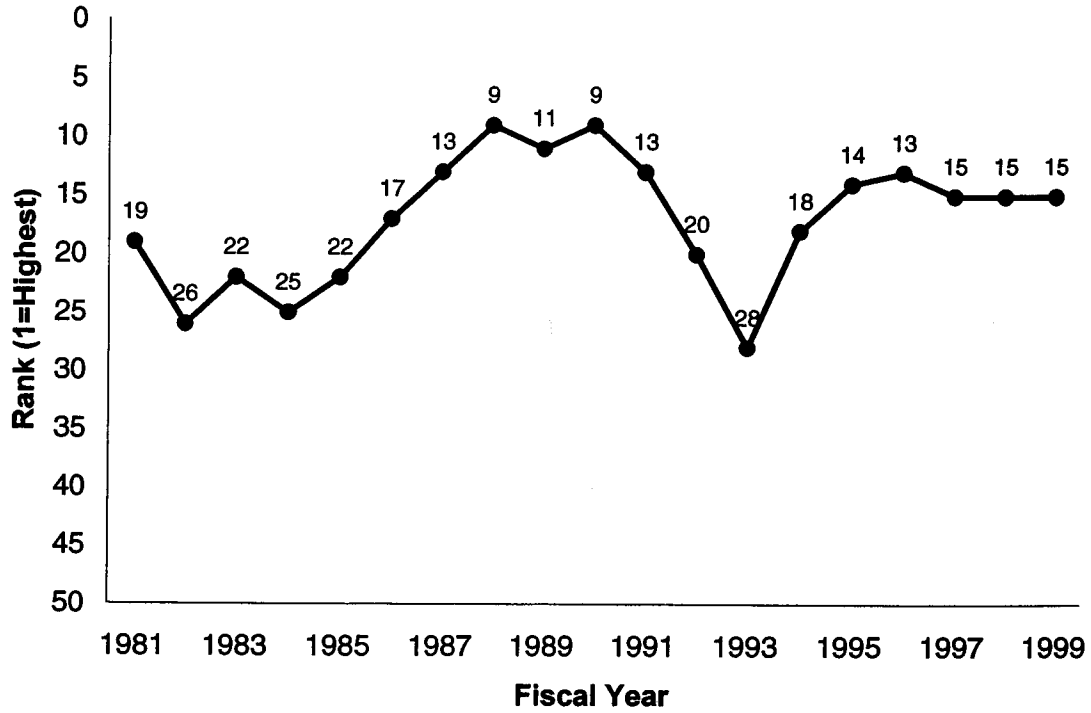
Ranking of Bordering States by Spending on Police Protection and Corrections Per Capita

State	1981	1985	1991	1995	1999
Kentucky	13	30	28	37	33
Maryland	3	3	4	3	6
North Carolina	8	15	18	12	17
Tennessee	35	33	22	29	44
West Virginia	50	49	49	49	48
Virginia	5	4	7	5	3

Source: Rankings from JLARC staff analysis of U.S. Census Bureau, Government Finances Survey.

Profile 14

Virginia's Rank: State Spending Per Capita on Highway Construction and Maintenance



Historically, Virginia has been an above-average spending state on highway construction and maintenance, in part because Virginia is one of three states where the State, and not localities, performs most road maintenance. Virginia moved up in spending rank over the 1980s due to the dedication of substantial new motor fuels and sales and use tax revenue. This trend moved Virginia into the top ten nationally just before the recession of the 1990s. As a result of that recession, however, and due to transfers of transportation funding into the State's general fund, Virginia's highway spending rank dropped 19 places by 1993. The level of spending recovered somewhat, settling to 15th through the end of the 1990s.

In 1981, Virginia was ranked 19th in terms of spending, rising four places to 15th by 1999. The average change in rank for the five bordering states was to fall 1.4 positions over the same period. Virginia operates the third largest physical road system in the nation, yet at 39th, its road usage (based on U.S. Census Bureau data on vehicle miles traveled) was relatively low compared to other states.

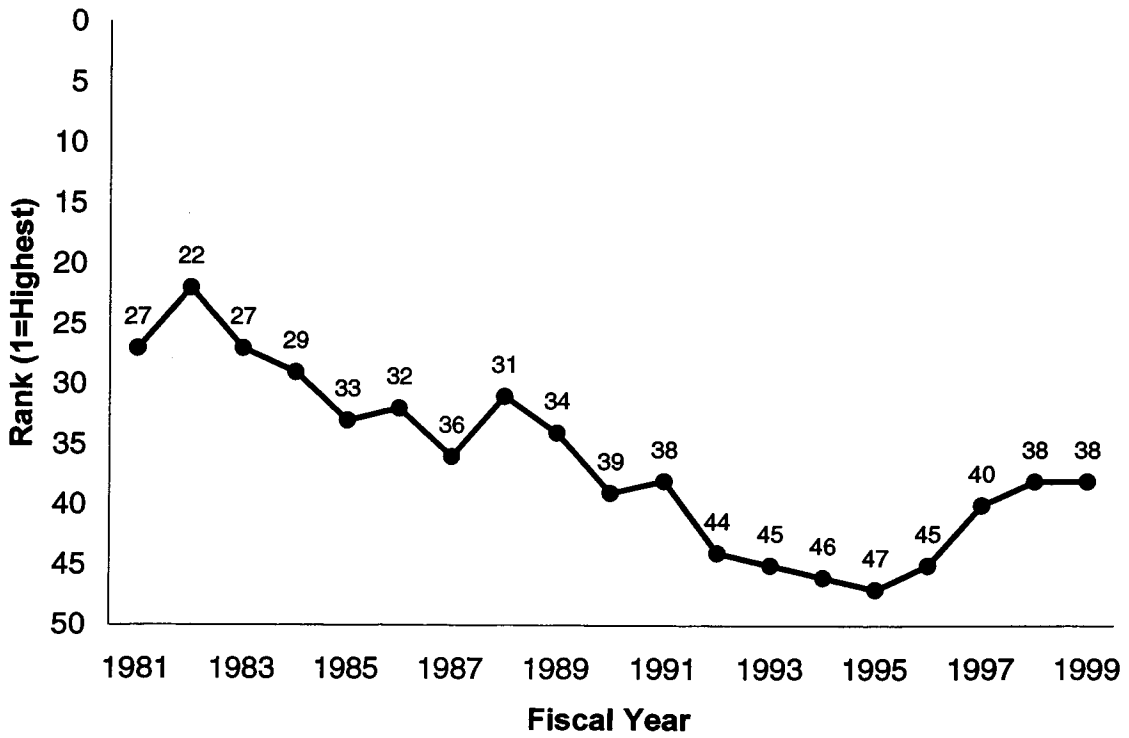
Ranking of Bordering States by Highway Construction and Maintenance Spending Per Capita

State	1981	1985	1991	1995	1999
Kentucky	7	21	23	26	14
Maryland	24	18	19	27	35
North Carolina	40	39	26	21	22
Tennessee	29	33	25	28	33
West Virginia	3	10	11	5	6
Virginia	19	22	13	14	15

Source: Rankings from JLARC staff analysis of U.S. Census Bureau, Government Finances Survey.

Profile 15

Virginia's Rank: State Spending Per Capita on Public Welfare, Hospitals and Health



For most of the last 20 years, Virginia's ranking among the states has decreased in terms of spending on the broad functional category of public welfare, hospitals, and health. There is an almost uninterrupted fall in the rankings through 1995. In that year Virginia reached its lowest rank, 47th. In the last four years of the period, however, Virginia's rank rose nine positions to 38th place.

In 1981, Virginia was ranked 27th, and by 1999, Virginia's rank had fallen eleven places to 38th. During the same period, the five bordering states saw an average increase in spending rank of 9.8 positions. From the most recent federal data, Virginia ranked low among the states in most of these service populations. Virginia's population receiving Temporary Assistance to Needy Families (TANF) ranked 41st among the 50 states in 2000. The number of Medicaid recipients in Virginia that year ranked 43rd, and the average monthly food stamp participation ranked Virginia 47th in that year. Virginia ranks toward the top of the 50 states in terms of the inpatient census at mental health institutions at 6th in 1998.

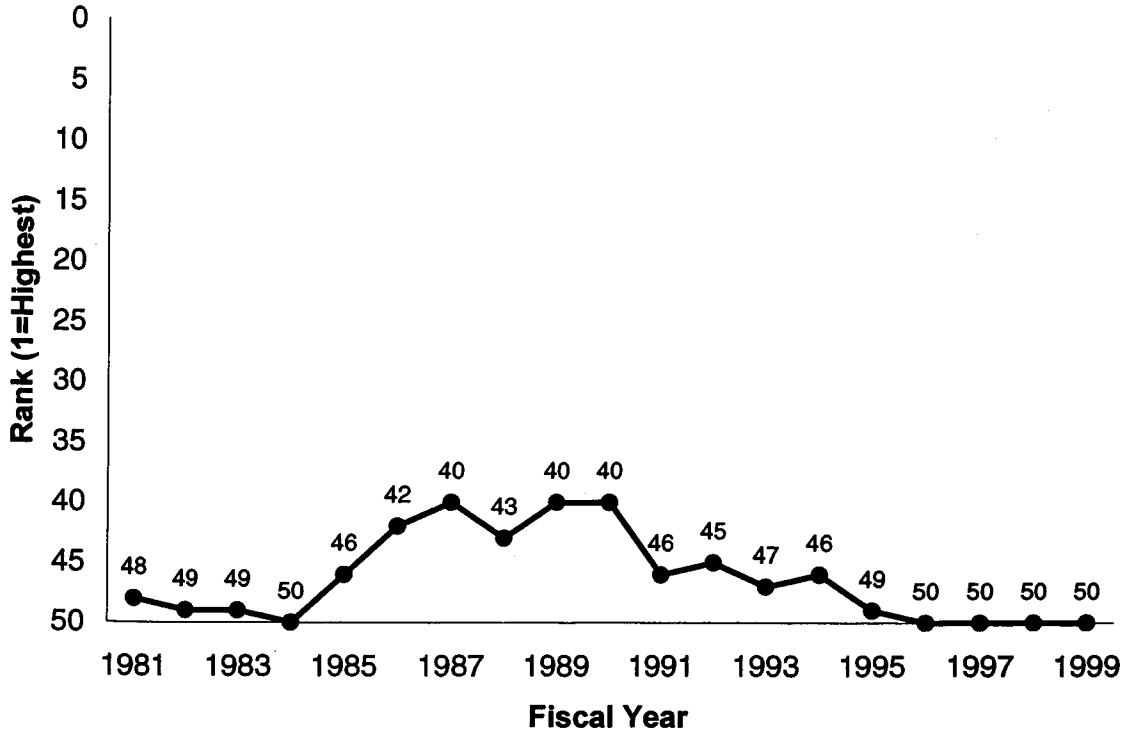
Ranking of Bordering States by Spending on Public Welfare, Hospitals and Health Per Capita

State	1981	1985	1991	1995	1999
Kentucky	23	28	18	23	14
Maryland	13	18	21	34	29
North Carolina	39	44	36	35	31
Tennessee	42	41	33	19	18
West Virginia	43	43	37	15	19
Virginia	27	33	38	47	38

Source: Rankings from U.S. Census Bureau, Government Finances Survey.

Profile 16

Virginia's Rank: Natural Resources, Parks and Recreation Spending Per Capita



Virginia tends to spend less on State natural resources and parks and recreation than most other states. Virginia has been ranked last or second to last in eight of the 19 years reviewed. The State's rank increased somewhat in the mid to late 1980s but never rose above 40th place. Virginia spending in the area was again last in the final four years of the period.

In 1981 Virginia was ranked 48th, and by 1999 Virginia's spending on this function ranked 50th among the states. The five bordering states saw their rank rise by an average of eight positions during this period.

According to *CQ's State Fact Finder 2002*, Virginia ranked 35th in total acreage in state parks, and 48th in the number of state park visitors, in FY 2000.

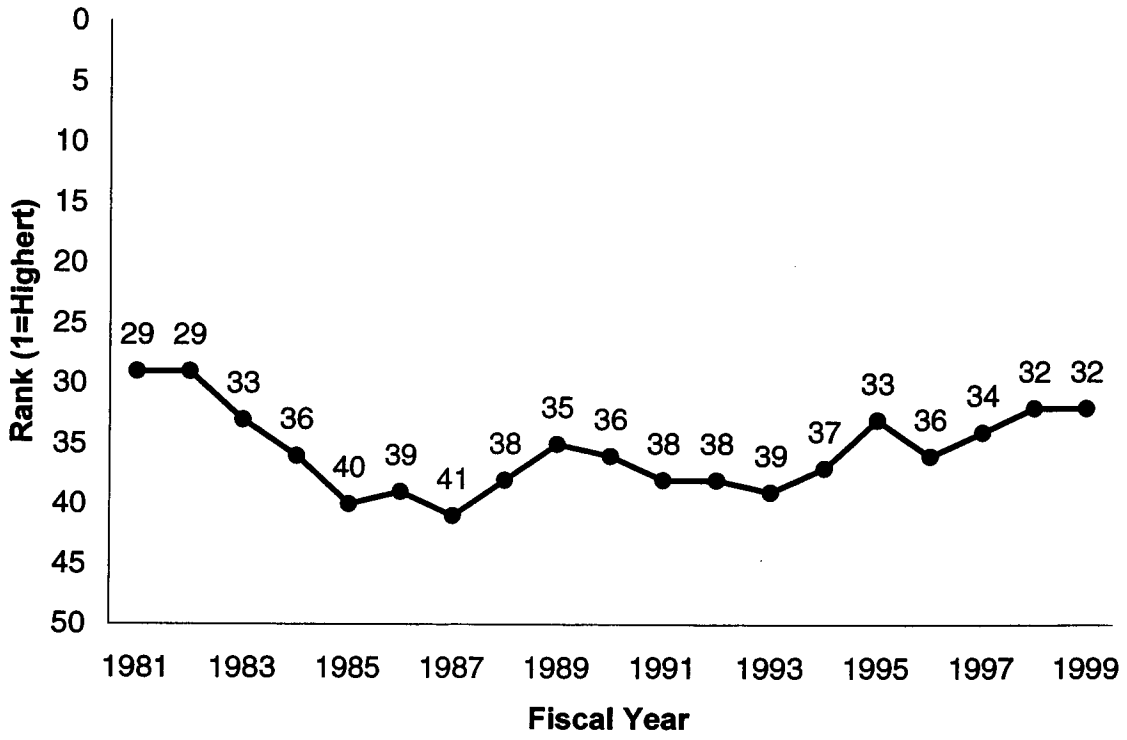
Ranking of Bordering States by Spending on Natural Resources and Parks Per Capita

State	1981	1985	1991	1995	1999
Kentucky	23	13	12	18	17
Maryland	32	25	22	23	14
North Carolina	33	34	31	30	24
Tennessee	38	40	45	36	37
West Virginia	21	17	11	11	15
Virginia	48	46	46	49	50

Source: Rankings from JLARC staff analysis of U.S. Census Bureau, Government Finances Survey.

Profile 17

Virginia's Rank: Government Administration, Debt Service and Other Spending



In this broad "other" category of spending, Virginia's trend has been relatively flat. Virginia was ranked in the thirties during most of the period. This level of spending tends to reflect the overall scale of Virginia government relative to other states. Trends in the other functional areas may tend to reflect their changing relative importance to budget makers as states' revenue situation changed and new policy priorities emerged.

Between 1981 and 1999, Virginia's rank in this catch-all spending category combined fell from 29th to 32nd. The five bordering states experienced a greater average decrease in their rankings of 10.2 positions.

Ranking of Bordering States by General Government, Debt and Other Spending Per Capita

State	1981	1985	1991	1995	1999
Kentucky	20	24	25	28	37
Maryland	15	20	18	14	26
North Carolina	33	44	46	46	42
Tennessee	48	46	47	50	46
West Virginia	11	12	17	23	27
Virginia	29	40	38	33	32

Source: Rankings from JLARC staff analysis of U.S. Census Bureau, Government Finances Survey.

Virginia's Pattern of Spending Growth

Census Bureau data permits a comparison of Virginia spending growth to the rest of the states. Table 23 and Figure 9 compares Virginia with the 50-state per capita, inflation-adjusted change in spending, for each major functional category, from 1981 through 1999.

Table 23 indicates that Virginia per capita, inflation-adjusted State spending grew less than it did for all 50 states. 50-state spending increased $1,479 over the period, compared to a Virginia spending increase of $1,363 – a difference of $116.

The distribution of spending increases differed in many respects between Virginia and the rest of the states. Education was the largest component of Virginia spending growth over the period. Virginia spent $484 more per capita in 1999 than it did in 1981, compared to the 50-state increase of $428. Education accounted for 35 percent of Virginia spending growth and 29 percent of the 50-state average spending growth.

Public welfare spending increased $275 in Virginia over the period, compared with $426 for all 50 states. This category comprised the second largest increase for Virginia, accounting for 20 percent of the total growth and 29 percent of the 50-state increase.

Figure 9 indicates graphically that the share of Virginia's spending growth was larger than the 50-state average increase hospitals, highways, corrections, government administration, and debt service. Virginia's increase was smaller than the 50-state average in the health, police protection, natural resources, public welfare and "other" government spending. Virginia's parks and recreation's share of spending increase equaled the 50-state average.

Trends in the Demand for State Services

The spending patterns discussed in this chapter largely reflect the trends in the demand for services, and in the underlying service populations, being served by the 50 state governments. Some states have more miles of road to maintain, larger inmate populations, more children in school, and so on, and these differences in service populations often drive differences in spending. Some spending also stems from states attempting to "catch up" with formula-driven requirements, or with major goals that may have been deferred. Table 24 notes Virginia's rank among the 50 states in some key populations and workloads served by major State programs.

The profiles of Virginia's national rankings (earlier in this chapter) briefly noted trends in some of these underlying populations. A more complete analysis is planned for a future JLARC report on State spending.

Table 23

Per Capita, Inflation-Adjusted Spending Change in Virginia Compared to the 50-State Average, 1981 to 1999

Category	50-State $ Increase	Share of 50-State Increase	Virginia $ Increase	Share of VA Increase
Education	$428	29%	$484	35%
Public Welfare	$426	29%	$275	20%
Hospitals	$11	1%	$60	4%
Health	$82	6%	$30	2%
Highways	$54	4%	$89	7%
Police Protection	$13	1%	$3	0%
Corrections	$84	6%	$93	7%
Natural Resources	$15	1%	$0	0%
Parks and Recreation	$4	0%	$4	0%
Government Administration	$67	5%	$74	5%
Interest on General Debt	$42	3%	$85	6%
Other/Unallocated	$255	17%	$164	12%
Total	$1,479	100%	$1,363	100%

Source: US Census Bureau.

Table 24

Virginia's Rank: Major State Service Populations and Workloads

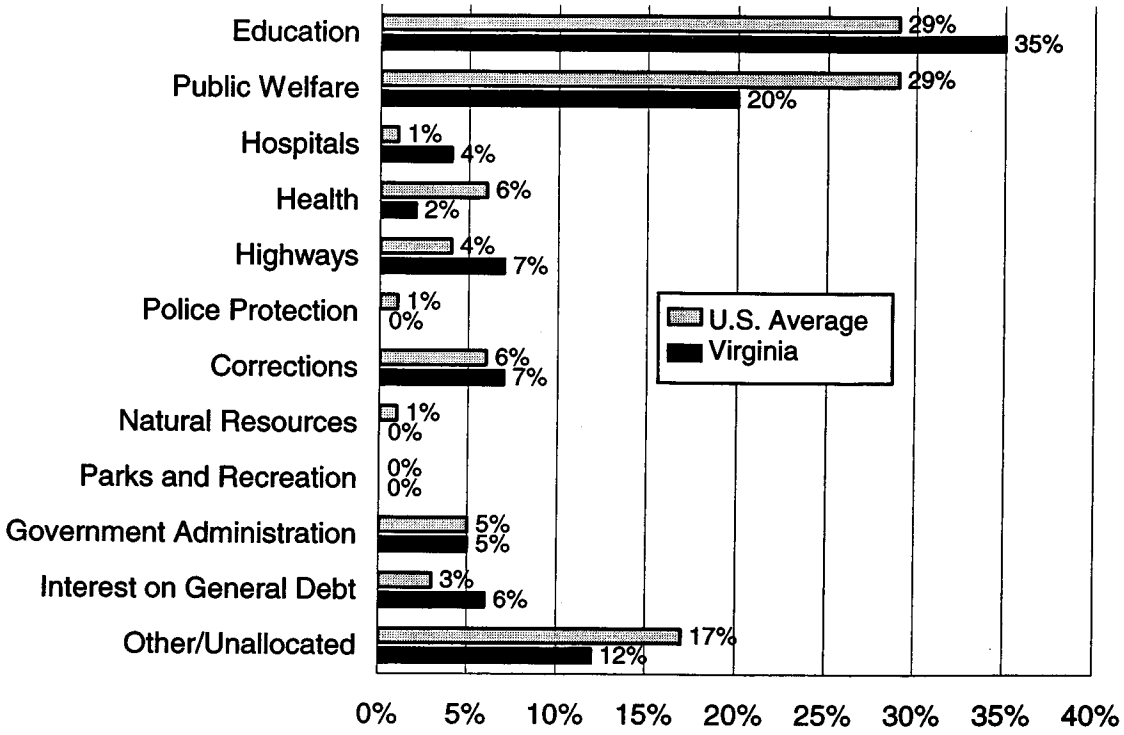
(In per capita terms)

Service Population	Rank (1=Highest)
K-12 Enrollment (1997)	37th
University Fall Enrollment, All Levels (1998)	17th
Medicaid Recipients (2000)	43rd
TANF Recipients (2000)	41st
Average Monthly Food Stamp Participants (2000)	47th
Mental Health Inpatient Census (1998)	6th
Substance Abuse Admissions (1998)	47th
Prisoners (2000)	20th
Probation Population (2000)	31st
State Highway Agency Owned Lane Miles (2000)	7th
Annual Vehicle Miles of Travel (2000)	39th
Population (2000)*	12th
Gross State Product (1999)*	13th

*All statistics have been standardized in per capita terms except for population and Gross State Product.
Source: Respective Federal Agencies.

Figure 9

Share of Spending Growth, Virginia Compared to the 50-State Average, 1981 - 1999



Source: U.S. Census Bureau.

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Appendix A

Study Mandates

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.

House Joint Resolution 773
2001 Session

Directing the Joint Legislative Audit and Review Commission to analyze the growth in spending by the Commonwealth since Fiscal Year 1981.

WHEREAS, since Fiscal Year 1981 general fund expenditures by the Commonwealth have grown from $5.7 billion to $25.1 billion in Fiscal Year 2001; and

WHEREAS, the growth in spending by the Commonwealth over the past two decades has significantly exceeded the Commonwealth's population growth and the rate of inflation; and

WHEREAS, the baseline budget of the Commonwealth has increased and grown dramatically during the past several years, to the sum of a $50 billion biennial budget; and

WHEREAS, a budget of this size, scope, and complexity requires the detailed and comprehensive supervision of the General Assembly; and

WHEREAS, while the budget is drafted and approved based on the most accurate fiscal and budgetary forecasts available during the brief legislative sessions, data may change in response to changing economic conditions subsequent to the session; and

WHEREAS, the Commonwealth provides, in addition to state-run agencies, extensive funds to private organizations and groups to advance legitimate state interests and the public policy goals of the General Assembly; and

WHEREAS, the General Assembly, while not exercising daily supervision and control of these private organizations and their operations, nevertheless retains its constitutional obligation and mandate to exercise sound stewardship of state funds on behalf of the people of the Commonwealth; and

WHEREAS, this sound stewardship requires that a full, complete and accurate accounting of the spending of state funds be made by any private organization that receives funding from the General Assembly; and

WHEREAS, an accurate and comprehensive analysis of the Commonwealth's spending trends over the past two decades would be a highly valuable aid to the fulfillment of the General Assembly's constitutional duty to appropriate the revenue derived from the taxpayers of the Commonwealth and its duty to protect the taxpayers from excessive spending and taxation; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Legislative Audit and Review Commission be directed to analyze the growth in spending by the Commonwealth since Fiscal Year 1981. In conducting the study, the Commission shall consider, 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 that 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 10 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 and 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 and populations served; (vii) an analysis of the use of performance budgeting, performance measurement, and program evaluation information in the legislative budgeting process and how the information may be more systematically used for program improvement and budget decision-making by legislators; (viii) a detailed analysis of the operations and expenditures of state funds by private organizations and groups, for the purpose of demanding a full, complete and accurate accounting of those funds, as well as demonstrable evidence that the public policy goals have been accomplished by their expenditure; (ix) policies and strategies that can be instituted or restructured to more efficiently and effectively spend such funds; (x) the cancellation of programs that fail to meet the stated purpose of their funding, or fail to provide a satisfactory accounting of their expenditures; and (xi) such other related issues as it deems appropriate.

All agencies of the Commonwealth shall provide assistance to the Commission for this study, upon request.

The Joint Legislative Audit and Review Commission shall submit preliminary findings and recommendations by November 30, 2001, to the Governor and the 2002 Session of the General Assembly, and the Commission shall complete its work in time to submit its final written findings and recommendations by November 30, 2002, to the Governor and the 2003 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Appendix B

Expenditures – Dollars in Millions

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
Change 1981-2001	5,654	1,752	5,044	646	2,234	1,908	1,002	293	18,532
% Change 1981-2001	295%	517%	272%	447%	242%	659%	352%	186%	314%
Annual Average % Change	7.2%	9.6%	6.9%	9.1%	6.9%	13.1%	8.2%	7.6%	7.4%

Source: CAFR, Department of Accounts.

Appendix C

Final Legislative Appropriations – Dollars in Millions

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
Change 1981-2001	17,610	9,597	967	2,068	1,803	223	482	97	230	2,144	8,013
% Change 1981-2001	308.3%	357.2%	511.5%	376.8%	183.6%	108.0%	363.4%	432.7%	1549.3%	230.5%	264.8%
Annual Average Change	7.3%	8.0%	9.9%	8.4%	5.7%	4.1%	9.4%	19.6%	17.0%	6.3%	6.8%

Source: Acts of Assembly, Department of Planning and Budget.

Appendix D

State Agencies

	Agency Code
1. Accounts, Department of	151
2. Administration, Secretary of	180
3. Aging, Department of	163
4. Agriculture Council, Virginia	307
5. Agriculture and Consumer Services, Department of	301
6. Alcoholic Beverage Control, Department of	999
7. Arts, Virginia Commission for the	148
8. Attorney General and Department of Law[4]	141
9. Auditor of Public Accounts	133
10. Aviation, Department of	841
11. Bar, Virginia State	117
12. Board of Bar Examiners	233
13. Business Assistance, Department of	325
14. Capitol Police, Division of	961
15. Central Appropriations	724
16. Charitable Gaming Commission	173
17. Chesapeake Bay Local Assistance Department	408
18. Chippokes Plantation Farm Foundation	319
19. Christopher Newport University	242
20. College Building Authority, Virginia	941
21. Commerce and Trade, Secretary of	192
22. Commonwealth Competition Council	169
23. Commonwealth University, Virginia	236
24. Commonwealth's Attorney's Services Council	957
25. Commonwealth, Secretary of	166
26. Community College System, Virginia	260
27. Compensation Board	157
28. Comprehensive Services for At-Risk Youth and Families	200
29. Conservation and Recreation, Department of	199
30. Cooperative Extension & Agricultural Research Services & Experimental Station	229, 234
31. Corporation Commission, State	171
32. Correctional Education, Department of	750
33. Corrections, Department of	799
34. Council of Higher Education for Virginia, State	125
35. Criminal Justice Services, Department of	140
36. Criminal Sentencing Commission, Virginia	160
37. Deaf and Hard-of-Hearing, Department for the [6]	751
38. Department for the Visually Handicapped	702

39. Disabilities, Virginia Board for People with 606

40. Economic Development Partnership 310
41. Education, Department of [5,8] 201
42. Education, Secretary of 185
43. Elections, State Board of 132
44. Emergency Services, Department of 127
45. Employee Relations Counselors, Department of 962
46. Employment Commission, Virginia 182
47. Employment and Training Department, Governor's 916
48. Environmental Quality, Department of 440
49. Finance, Secretary of 190

50. Fire Programs, Department of 960
51. Forestry, Department of 411
52. Frontier Culture Museum of Virginia 239
53. Game and Inland Fisheries, Department of 440
54. General Assembly of Virginia 101
55. General Services, Department of 194
56. George Mason University 247
57. Grants to Nonstate Agencies 986
58. Gunston Hall 417
59. Health Professions, Department of 223

60. Health and Human Resources, Secretary of 188
61. Health, Department of 601
62. Higher Education Trust Fund, Virginia 174
63. Historic Resources, Department of 423
64. Housing and Community Development, Department of 165
65. Human Resource Management, Department of 129
66. Human Rights, Council on 170
67. Information Providers Network Authority, Virginia 135
68. Information Technology, Department of 138
69. Innovative Technology Authority 934

70. Institute of Marine Science, Virginia 268
71. Intergovernmental Cooperation, Virginia Commission on 105
72. James Madison University 216
73. Jamestown-Yorktown Foundation 425
74. Joint Legislative Audit and Review Commission 110
75. Judicial Inquiry and Review Commission 112
76. Juvenile Justice, Department of 777
77. Labor and Industry, Department of 181
78. Legislative Automated Systems, Division of 109
79. Legislative Services, Division of [2] 107

80. Liaison Office, Virginia 963
81. Library of Virginia, The 202
82. Lieutenant Governor 119
83. Local Government, Commission on 968
84. Longwood College 214
85. Lottery Department, State 172
86. Marine Resources Commission 402
87. Mary Washington College 215
88. Medical Assistance Services, Department of 602
89. Medical College of Hampton Roads 274

90. Melchers-Monroe Memorials 220
91. Mental Health, Mental Retardation, & Substance Abuse Services, Department of [1] 720
92. Military Affairs, Department of 123
93. Military Institute, Virginia 211
94. Milk Commission 305
95. Mines, Minerals, and Energy, Department of 409
96. Minority Business Enterprise, Department of 232
97. Motor Vehicle Dealer Board 506
98. Motor Vehicles, Department of
99. Museum of Fine Arts, Virginia 238

100. Museum of Natural History, Virginia 942
101. Natural Resources, Secretary of 183
102. Norfolk State University 213
103. Office for Protection and Advocacy, Virginia 175
104. Office of the Governor 121
105. Old Dominion University 221
106. Parole Board, Virginia 766
107. Planning and Budget, Department of 122
108. Polytechnic Institute and State University, Virginia [7] 208
109. Port Authority, Virginia 407

110. Professional and Occupational Regulation, Department of 222
111. Public Broadcasting Board, Virginia 911
112. Public Defender Commission 848
113. Public Safety, Secretary of 187
114. Racing Commission, Virginia 405
115. Radford University 217
116. Rail and Public Transportation, Department of 217
117. Rehabilitative Services, Department of [3] 262
118. Retirement System, Virginia 158
119. Richard Bland College 241

120.	Rights of Virginians with Disabilities, Department for the	762
121.	Roanoke Higher Education Authority	935
122.	Science Museum of Virginia	146
123.	Social Services, Department of	765
124.	Southeastern Universities Research Association, Inc.	936
125.	Southwest Virginia Higher Education Center	948
126.	State Internal Auditor, Department of the	150
127.	State Police, Department of	156
128.	Supreme Court [9]	111
129.	Taxation, Department of	161
130.	Technology Planning, Department of	137
131.	Technology, Secretary of	184
132.	Tourism Authority, Virginia	320
133.	Transportation, Virginia Department of	501
134.	Transportation, Secretary of	186
135.	Treasury Board	155
136.	Treasury, Department of	152
137.	University of Virginia (includes UVA Medical Center)	207
138.	University of Virginia's College at Wise	246
139.	University, Virginia State	212
140.	Veterans Care Center Board of Trustees, Virginia	128
141.	Veterans' Affairs, Department of	131
142.	Virginia Alcohol Safety Action Program	413
143.	William and Mary in Virginia, The College of	204
144.	Workers' Compensation Commission	191

1. The 15 mental health institutes and mental retardation treatment centers, and grants to localities for mental health and mental retardation services are included within DMHMRSAS.
2. The 13 legislative commissions, legislative automated systems, interstate organization contributions, and legislative reversion account are included within the Division of Legislative Services.
3. Woodrow Wilson Rehabilitation Center is included within the Department of Rehabilitative Services.
4. The Division of Debt Collection is included within the Department of Social Services.
5. Direct Aid to Public Education is included within the Department of Education.
6. The Rehabilitative Center for the Blind is included within the Department for the Visually Handicapped.
7. Virginia Tech Extension Research Services and the Experiment Station are included in Virginia Polytechnic Institute and State University.
8. Virginia Schools for the Deaf and Blind at Staunton and Hampton are included in the Department of Education.
9. The Supreme Court includes the magistrate system, juvenile and domestic relations district courts, combined district courts, general district courts, circuit courts, and the court of appeals.

Source: 2000 Acts of Assembly, Chapter 1072, index, with adjustments as shown.

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