

August 16, 2002

MEMORANDUM

TO: The Honorable Robert F. McDonnell
 The Honorable Emmett W. Hanger, Jr.

FROM: Robert P. Vaughn and Elizabeth B. Daley

SUBJECT: State Aid to Localities – Fiscal Review

The staff of the House Appropriations and Senate Finance Committees were requested to comment on the procedures for fiscal review and analysis of the various state aid to localities programs.

Attached is a matrix that outlines the major local aid programs, and includes the following information: biennial general fund appropriations, the legal authority for the program, a brief synopsis on how funding is determined, and information on recent policy reviews.

As the matrix indicates, funding for many of these programs is driven through formulas or policy either specifically set out in the Code of Virginia, through language in the Appropriation Act, or developed by the administering state agency. While funding for these programs may be largely driven by formula or policy, there are a number of technical factors that are examined during the budget process that can influence the actual or estimated costs. Examples of technical factors reviewed include student enrollment projections, inmate population projections, patient caseloads, and inflation assumptions.

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While Appropriations and Finance Committee staff as well as the Department of Planning and Budget routinely conduct technical reviews of these funding formulas, there are cases when a more comprehensive examination is required. Both the Appropriations and Finance Committees rely on policy reviews conducted by the Joint Legislative Audit and Review Commission, the State Crime Commission, joint study committees, or from the Executive Branch. In many cases, the respective Committees request these reviews. The findings of these comprehensive reviews generally form the basis for programmatic and policy changes that can have a fiscal impact. These reviews may produce policy changes that result in either expanded program services, or the streamlining of programs.

While the matrix speaks only to local aid programs, the same process is used for all programs contained in the budget. Many state programs are driven by enrollment, population and caseloads, such as Higher Education, Health and Human Resources (Medicaid, Mental Health, etc.) and Public Safety (adult and juvenile corrections). Generally speaking, the growth in programs is often driven by current policy, rather than through program expansion.

Please let us know if you need any additional information.

General Fund State Aid to Localities - Major Programs
(\$ in millions)

Program	2002-04 Approp.	Authority	How Funding is Determined	Policy/Program Review
Direct Aid to Public Education: Standards of Quality Accounts (major accounts include Basic Aid; Sales Tax; Textbooks; Vocational, Gifted, Special and Remedial Education; and fringe benefits)	\$7,040.6	Article VIII, Section 2, Constitution of Virginia; Code of Virginia, Sections 22.1-97, 22.1-186, 22.1-205, 22.1-213 through 222, 22.1-228 through 236, 46.1-357 and 46.1-380. Composite index set out in Appropriation Act	Instructional costs driven by pupil:teacher ratios set out in SOQ and updated actual salary expenditures; support driven by updated actual expenditures and inflation factors; distribution driven by composite index formula updated biennially; sales tax is driven by latest estimate and distributed through triennial census.	1986/1988 and 2001 JLARC reviews of SOQ funding; 2001 JLARC review of pupil forecasting; annual budget review of inflation and enrollment projections; current JLARC review of local divisions' fiscal best practices; DOE annual examination of compliance with required local effort and accreditation standards
Direct Aid to Public Education: Categorical Accounts (major accounts include Regional Special Education Tuition; Hospitals, Clinics, Detention Homes; Foster Care; and English as a Second Language)	\$243.8	Varies by account, majority Code of Virginia, but Federal law mandates many of these services, Appropriation Act for rest. Code of Virginia, Sections 22.1-213 through 222, 22.1-227, 22.2-223 through 226, 22.1-108, 22.1-101.	Varies by account, but majority driven by number of students receiving various services; prior year cost data; with determination of state share based on composite index formula updated biennially.	Annual budget review of student counts and prior year costs, annual rate setting process by Dept. of Education for Regional Special Education Tuition
Direct Aid to Public Education: Incentive Accounts (major accounts include Lottery, Class Size Reduction K-3, School Construction Grants, SOL Remediation and At-Risk Four-Year-Olds Preschool Program)	\$674.0	Code of Virginia, or Appropriation Act	Driven by formulas that are very similar to those used to fund Standards of Quality programs or are based on portions of Standards of Quality funding.	Subject to the same reviews as SOQ accounts above, including annual budget review of enrollment projections

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Program	2002-04 Approp.	Authority	How Funding is Determined	Policy/Program Review
Direct Aid to Public Education: Other Accounts (examples include Project Discovery, Small School Division Grants, Southwest Education Consortium)	\$5.1	Appropriation Act, Treaty of 1677 between Virginia and the Indians	Individual direct grants for all but Indian Children which is driven by student count.	Annual budget review of need, several programs eliminated by 2002 General Assembly
Personal Property Tax Relief	\$1,667.1	Code of Virginia.	Based on vehicle values of \$20,000 or less at 70% reimbursement.	Effective July 1st, the Department of Taxation has the forecasting responsibility. Forecast is based on vehicle values and local tax rates.
ABC Profits	\$16.5	Code of Virginia §4.1- 117	Formula based primarily on population. Portion retained by ABC.	No recent reviews
Distribution of Wine Taxes	\$19.4	Code of Virginia §4.1- 235	Formula based primarily on population. Portion retained by ABC.	No recent reviews
Recordation Taxes	\$80.0	Code of Virginia. Section 58.1-816	\$40 million distributed in proportion to taxes paid by residents of each locality. Northern Virginia localities' funds go to NVTD pursuant to 58.1- 815.1.	No recent reviews
Compensation Board:				
Sheriffs (includes law enforcement, local jails, court security, civil process)	\$532.5	Code of Virginia §15.2, Chapter 16, Article 3; §53.1-83.1, §53.1-85	Formula of 1:1,500 deputies per population for law enforcement; all others based on Comp. Board staffing standards.	Increase from 1:2,000 by 1998 Gen. Assembly; other staffing standards review by Comp. Board in 1994
Regional Jail Operations	\$147.3	Code of Virginia §§53.1- 83.1, 53.1-85	Comp. Board staffing standards based on jail population.	No recent reviews
Local Jail Per Diem Payments	\$129.4	Code of Virginia §§53.1- 83.1, 53.1-84, and 53.1- 85	Per Diem based on \$8/day local and \$14/day state inmate.	No recent reviews

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Compensation Board:				
Commonwealth's Attorneys	\$96.4	Code of Virginia Chapter 16, Article 4	Comp. Board staffing standards based on caseload.	2000 Comp. Bd. Review
Circuit Court Clerk	\$87.4	Code of Virginia Chapter 16, Article 5	Comp. Board staffing standards based on court docket.	1996 Comp. Bd. Review
Treasurers	\$50.4	Code of Virginia Chapter 16, Article 2	Comp. Board staffing standards based on workload.	1994 Comp. Bd. Review
Commissioners of Revenue	\$50.4	Code of Virginia Chapter 16, Article 6.1	Comp. Board staffing standards based on workload.	1994 Comp. Bd. Review
Aid to Localities with Police Depts. (HB 599)	\$348.5	Code of Virginia §9.1-165	Total amount based on GF revenue growth; allocation formula based on population, crime rates.	1993 DCJS review, no action taken
Aid to Local Libraries	\$37.8	Code of Virginia §9.1-165	Formula based on population, square miles served, jurisdictions served & local expenditures.	2001 JLARC Review
Juvenile Detention Block Grants	\$70.1	Code of Virginia §16.1-322.1	50% of costs approved by Board of Juv. Justice.	2001 Dept. of Juvenile Justice Report to Gen. Assembly
Juvenile Crime Control Grants	\$29.0	Code of Virginia §16.1-309.2	Formula based on juvenile arrests/intakes.	2002 Gen. Assembly reduced funding by 51% by, formula currently being revised
Adult Community Corrections & Pre-Trial Services.	\$37.2	Code of Virginia §§19.2-152.4, 53.1-182.1	Discretionary grants based on caseloads and investigations.	2002 DCJS Report to Gen. Assembly

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Program	2002-04 Approp.	Authority	How Funding is Determined	Policy/Program Review
Community Service Boards (CSBs)	\$348.6 GF \$119.2 NGF	Title 37.1, Chapter 10, Code of Va.	Annual plan and budget submitted by CSBs, including a comprehensive needs assessment of the service area, an inventory of available services in the area and projected utilization of services; state allocations based on the plans and budgets not to exceed 90% of the total costs; local share is 10%.	1998 and 2000 Reports of the Joint Subcommittee Studying the Future Delivery of Publicly Funded Mental Health, Mental Retardation and Substance Abuse Services (HJR 240, 1996 Session and HJR 225, 1998 Session)
Comprehensive Services for At-Risk Youth (CSA)	\$296.9 GF \$68.4 NGF	Title 2.2, Chapter 52, Code of Va & Item 299, 2002 Appropriation Act	Current funding allocations are based on the greater of a locality's percentage of actual 1997 CSA pool fund expenditures or the latest available 3-year average of actual pool fund program expenditures and number of "mandated" children specified by the Code of Virginia.	1998 JLARC Comprehensive Review of the Implementation, Caseloads, Costs, Outcomes, and Management of the CSA Program
State & Local Hospitalization Program	\$27.7 GF	Title 32.1, Chapter 12, Code of Virginia and Chapter 899, 2002 Acts of Assembly.	State allocations based on estimated cost of required hospitalization and treatment for indigent persons in each county and city, less the funds provided by the locality; the local share of costs is based on local ability to pay funding formula recommended by JLARC with no local share exceeding 25%.	1988 JLARC Study of the State and Local Hospitalization Program funding formula

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Cooperative Health Department Prog.	\$184.7 GF	Chapter 668, 1989 Acts of Assembly	State allocations based on historical expenditures for community public health and environmental services provided in each locality; the local share of costs is based on a local ability to pay funding formula recommended by JLARC, with no local share exceeding 45%.	2000 JLARC Review of the Performance and Management of the Virginia Department of Health; 1988 JLARC Study of the Cooperative Health Department Program funding formula; 1984 and 1986 Joint Subcommittee Studying Alternatives for a Long-Term Indigent Health Care Policy
Social Services:				
Community Services Block Grant	\$6.1 GF \$55.3 NGF	Title 2.2, Chapter 54; Chapter 899, 2002 Acts of Assembly	Formula set out in Appropriation Act for Community Services Block Grant - 75% based on low-income population, 20% based on number of jurisdictions served, and 5% based on square miles served.	1989 JLARC Review of Community Action in Virginia; 1995 JLARC Follow-up Review of Community Action in Virginia
General Relief	\$9.6 GF	Title 63.1, Chapters 1 and 6, Code of Virginia.	Local match set by the Code of Virginia at 37.5%; participation in the program is a local option.	Fiscal review by money committees each year
Temporary Assistance to Needy Families (TANF) for Two-Parent Families	\$6.8 GF	Title 63.1, Chapters 1 and 6, Code of Virginia; Title IV, Subtitle B, P.L. 9735, as amended; P.L. 103-252, as amended; P.L. 104-193, as amended, Federal Code.	Eligibility rules set forth in state and federal law and regulations.	1999 JLARC Review of the Implementation of and Participant Outcomes in Virginia's Welfare Reform Initiative; 2000 JLARC Follow-up Review of Participant Outcomes in Virginia's Welfare Reform Initiative

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Program	2002-04 Approp.	Authority	How Funding is Determined	Policy/Program Review
Social Services:				
Foster Care	\$63.9 GF \$65.6 NGF	Title 63.1, Chapters 3, 9 and 10 and federal code	Based on number of children in foster care, estimated growth in the program, the historical cost of providing room and board care, and a periodic inflation adjustment set forth in the Appropriations Act.	Fiscal review of cost increases by money committees each year; 1985 DSS Study of Foster Care; 1998 JLARC Review of the Comprehensive Services Act examined components of foster care
Adoption Subsidy Payments	\$47.3 GF \$34.2 NGF	Title 63.1, Chapters 3 and 10.2	Based on number of children with special needs who are eligible for adoption subsidy payments set forth in the Code of Virginia and estimated growth in the cost of maintenance and special services.	Fiscal review of cost increases by money committees each year
Local Administration of TANF, Food Stamp and Medicaid Programs	\$93.0 GF \$191.9 NGF	Title 63,1 Chapters 1, 6, 6.2, 6.5, 13 and 14, Code of Va.; Public Law 104-193, Titles VI A, XIX and XXI, Social Security Act, Federal Code, as amended.	A federally approved cost allocation formula is applied based on random moment sampling of local eligibility workers' time spent on administrative activities for each of the benefit programs; localities provide a 20% match.	Cost allocation formula is approved by the federal government and audited by the Auditor of Public Accounts
Auxiliary Grant Payments for Aged, Blind, and Disabled Persons Residing in Assisted Living Facilities	\$40.1 GF	Title 51.2, Chapter 1.1 and Title 63.1, Chapters 1 and 6, Code of Virginia; Title XVI, federal Social Security Act, as amended.	Based on number of individuals eligible for federal Supplemental Security Income (SSI) and who reside in a licensed assisted living facility or adult family day care homes, and the maximum monthly grant rate as set forth in the Appropriations Act; localities provide a 20% local match.	1979 JLARC Review of Homes for Adults; 1990 JLARC Follow-up Review of Homes for Adults in Virginia; 1997 JLARC Review of Services for Mentally Disabled Residents of Adult Care Residences

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Social Services:				
Child Day Care Payment Subsidies	\$26.6 GF \$150.6 NGF	Title 63.1, Chapters 1, 3,6, 6.2, 6.5, and 12.1, Code of Virginia; Public Law 100-435, 100-485, 101-508, 104-193, as amended, Federal Code.	Based on the state's 1994 level of expenditure for child day care as required by federal law; funding for child care above this level is based on available state dollars to serve income eligible families, families transitioning from welfare, and families on local waiting lists; localities provide a 10% match.	2001 Child Care and Development Fund Plan (submitted to the federal government every two years); 2001 DSS Report on Maximizing Federal Funding for Child Care Services; 1997 JLARC Follow-up Review of Child Day Care; 1989 JLARC Review of Regulation and Provision of Child Day Care in Virginia