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ABOUT

Key Policy Choices by Legislators Will Be Revealed on ‘Budget Sunday’

The state’s next two year budget is now before state legislators. On Sunday, they will reveal their amendments to the budget introduced by former Governor Terry McAuliffe in December. The proposal before them makes important progress in a number of key areas of support for Virginians. What happens next will influence whether more Virginians have access to affordable health care, whether Virginia’s schools have more adequate and equitable state funding, and whether the state will have enough revenue to invest in families and communities.

Below are four key questions to ask when the House and Senate release their proposed amendments on Sunday.

1. Did legislators expand health coverage and, if so, how and what strings did they attach?

There is growing consensus in Virginia to move forward with closing the health care coverage gap and bringing needed access to more low-income Virginians by raising eligibility for the state Medicaid program. The budget before legislators does so in a fiscally responsible manner that covers all state costs with a provider assessment on hospitals, while using the state savings to shore up the state’s reserve funds and invest in K-12 education. A straightforward Medicaid expansion will provide health coverage for about 400,000 people, including about 240,000 stuck in a gap where they make too much money to be eligible for current Medicaid but not enough to get tax credits to help buy insurance on the Marketplace. For context, if you are a working family of three and you make \$10,524 or more, that’s too much money to qualify for Medicaid under Virginia’s current rules.

By expanding Medicaid, Virginia can draw in around \$1.5 billion next year in new federal funding, leading to a net savings for the state to the tune of \$421.7 million over the biennium – a mix of new revenue from a provider assessment on hospitals and net savings from other programs. This would allow us to make long overdue investments in critical areas such as K-12 education and behavioral health, while also shoring up Virginia’s reserves.

There are indications that legislators in one or both chambers will accept the concept of drawing down federal funds to expand health coverage, but will propose modifying the existing proposal to cover fewer people or attach new requirements for Medicaid recipients. It will be critical to examine the details of these proposals to find a path forward that provides health coverage for the most Virginians.



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income persons.

2. Did legislators make additional investments in K-12 education or did they re-shuffle existing funds?

The introduced budget makes some important improvements for K-12 education, but leaves out some other critical components and continues the lottery shell game. Legislators have the opportunity to make additional improvements.

Key positive items in the budget before legislators are the state's share of a 2 percent pay increase for school staff starting in December of 2019 (covering seven months of the two year budget); \$7.7 million for the state's share of paying for a full-time principal in every elementary school; and \$7.1 million to boost the At-Risk Add-On program targeted to school divisions with high shares of students who are eligible for the federal free lunch program.

It will be important to see if these positive developments are retained in the House and Senate budget proposals, and whether they make further improvements.

Democrats and Republicans in the House and Senate have put in budget amendments to build upon the meager increase to Virginia's At-Risk funding included in the governor's budget. The amount of additional dollars in the proposals range from \$14 million to over \$100 million. These investments would put our funding more in-line with other states and would expand what these dollars can be used for to include teacher recruitment and retention in hard-to-staff schools.

In the Governor's budget, the state has once again engaged in a budgetary shell game with lottery revenues. The proposed budget estimates that the state lottery program will generate \$80 million more than the last biennium. Rather than using these funds to boost support for public education by investing in early education or targeted funding, these funds are used to swap out an equivalent amount of general fund dollars – referred to as supplanting. House Appropriations Committee Chairman Chris Jones has spoken out against this gimmick, so look for whether the House budget returns these general fund dollars to education.

Prior to the recession, the state dedicated 40 percent of lottery revenues to a supplemental funding pool to divisions called the lottery per pupil allocation (lottery PPA). We still haven't hit that target, and that \$80 million would get us there.

3. Did legislators retain the proposed deposit to bring Virginia's new reserve fund to \$427 million by June 30, 2020?

As a result of the significant savings from expanding Medicaid, and due to stronger revenue growth than what was predicted, the former governor's proposed

budget makes substantial contributions to the state's new revenue cash reserve fund. If retained, this likely will please bond rating agencies and would be a wise move since the state's rainy day fund is at very low levels despite the economic recovery.

4. Do the House and Senate propose increasing or decreasing the revenue that is needed to invest in Virginia's families and communities?

Virginia's current tax structure is barely providing enough money to meet Virginia's basic obligations, such as updates to the K-12 education and health care funding formulas, with very little leftover to restore these services to their pre-recession levels. In order to really invest in improvements for Virginia's families and communities – not just sustain already low levels of support – tax policy changes would be needed to make up for the ways in which Virginia's revenue system lags behind.

While the provider assessment will cover all the costs of expanding Medicaid, the introduced budget takes no other major steps to raise revenue.

Having sufficient resources is critical to investing in education, health care, infrastructure, and other priorities that families and businesses rely on. These investments will pay off and play an integral part in creating an inclusive economy that continues to be strong far into the future – one that supports all communities, and where everyone can reach their potential. A key question about the House and Senate budgets is whether they propose retaining the new provider assessment and the modest other tax policy measures in the introduced budget and whether they go further to invest in Virginia's present and future.

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