Understanding the Legislative Budget Process

NALEO
National Institute for Newly Elected Officials
November 22, 2014
April Kees, Legislative Fiscal Analyst
Virginia Senate Finance Committee
Understanding the Legislative Budget Process

Overview

- Timeline of Important Dates
- Governor’s role in the budget process
- General Assembly’s role in the process
- Legislative Budget Process
- What you need to know
- A Snapshot of Virginia’s budget
Virginia’s budget process

Timeline of important dates

Budget Development

Agency Budget Preparation
- **August**
  - DPB issues instructions to agencies

- **September**
  - Agencies generate & submit requests

Review & Recommendation
- **November**
  - Governor, DPB, Cabinet review

- **December**
  - Governor submits document & bill to GA

Budget Deliberation

Legislative Action
- **January**
  - Budget bills referred to money committees

- **February**
  - Senate & House produce separate budget proposals

- **March**
  - Conference Committee reports budget bill(s)/GA approves budget

Gov’s Review
- **April**
  - Governor signs/vetoes or returns items to GA with amendments
Virginia: Who are the players?

**Governor**

- As the chief planning and budget officer, the Governor prepares the biennial budget and executes it once the legislature completes its actions.

- Governor gets the first “bite at-the-apple” when allocating projected revenues. Also must propose reductions when deficits are projected.

- The Governor’s proposed budget bill is presented to a Joint Session of the House Appropriations and Senate Finance Committees in mid-December.
Virginia: Who are the players?

The General Assembly

- 40 Senators and 100 Delegates make up the Commonwealth’s citizen legislature.
  - Members of the General Assembly have “other jobs” and come from all walks of life.

- Since 1971, the General Assembly has met annually.
  - Long sessions are held in even-numbered years and typically last 60 consecutive days.
  - Short sessions are held in odd-numbered years and last 45 consecutive days.
  - Special sessions are convened on an ad hoc basis.
Virginia: Who are the players?

The General Assembly

- Like the Governor, one of the primary responsibilities of the General Assembly is to craft a budget.

- “The Governor proposes and the legislature disposes.”
  - The House and Senate budgets are actually amendments to the Governor’s introduced budget.
  - The General Assembly adds, modifies, endorses or deletes items in the Governor’s proposed budget.
  - The General Assembly also increases or decreases proposed funding levels.

- In even-numbered years, the General Assembly enacts a two-year or biennial budget. In odd years, the House and Senate tend to address unexpected increases or decreases.
Virginia: Who are the players?

The General Assembly

- The House Appropriations, House Finance and Senate Finance Committees comprise the General Assembly’s “money committees.”
  - The budget process in Virginia is reserved for few members.
  - Not always easy to get your foot in the door on budget issues.

- Through legislation and the budget process, these committees establish the Commonwealth’s fiscal policies.

- **Senate**: Duties are combined under the Finance Committee.

- **House of Delegates**: Duties are split between the Finance Committee (tax policy) and the Appropriations Committee (spending decisions).
Virginia: Who are the players?

The General Assembly

- The House Appropriations and Senate Finance Committees are the only standing committees with full-time legislative staff assigned to them.

- These non-partisan staff members provide the Committees:
  - Independent sources of information;
  - Professional expertise in various budget disciplines;
  - Recommendations on emerging funding issues; and
  - Guidance on spending and revenue trends.
Virginia: Who are the players?

_The General Assembly_

- Staff members critically examine the Governor’s budget...
  - Analyze funded and unfunded items;
  - Consider alternative approaches; and
  - Develop and recommend funding policies.

- …but also become involved with legislation.
  - Monitor legislation that might have a “fiscal impact”; and
  - Assist policymakers with “major” legislative proposals that will impact the Commonwealth’s finances.
    - Funding guidelines for higher education;
    - Abolition of parole; and
    - Changes to the mental health civil commitment process.
Virginia: Legislative budget process

Committee must balance competing demands

- Examine programs and their funding streams
- Examine historical spending actions
- Examine program performance data, if available
- Listen to advocacy groups
- Listen to agency staff (e.g., budget, policy, program)
- Discuss pressing needs with Subcommittee members and Subcommittee Chairs
- Set priorities within budgetary constraints
- Look for creative and alternative sources for funding and providing services (e.g., federal, local, private, in-kind)
- Develop advance strategy for budget negotiations with House or Senate counterparts
Virginia: Legislative budget process

Finalizing the budget

- Once each chamber adopts its version of the budget, bills are sent to opposite house.
- Committee of conference is appointed.
  - Provides opportunities to correct mistakes and get additional input.
  - Budget conferees resolve differences between House and Senate budgets.
- Conference committee report is sent back to House and Senate floors for final approval – up or down vote.
- Adopted budget sent to Governor for signature.
- Governor’s amendments or vetoes considered during Reconvened (Veto) Session.
What do you need to know about the budget process?

- The Governor and the General Assembly largely operate on the margin when it comes to the budget.
  - Many decisions are driven by federal mandates, state law, and previous “high-priority” commitments that often require funding changes related to enrollment changes and/or population growth.

- While the Governor’s discretionary spending proposals are important so are legislators.
  - The Governor and legislators will compete for the same resources.

- Communicate your needs to the Governor.

- When economic downturns occur there is little room for discretionary spending.
  - Good time to reevaluate the services that are provided, review tax preferences, reallocate resources, and examine ways to increase revenue.
    - Taxes, fees, debt, etc.
    - Alternative service providers (PPEA, PPTA, local governments, etc.).
How can you get up to speed on the budget?

- Find the “experts” on the budget to help you learn.
  - Other legislators, legislative staff, legislative auditors office, research staff.
  - Ask for briefing from Department staff.
  - Listen to lobbyists and advocates.

- Concentrate on areas you are interested in.
  - Put in the time to learn and ask questions.

- Attend any briefings on the budget.
What you need to know about legislative staff?

- Legislative fiscal staff can be:
  - Partisan or non-partisan.
  - Very involved or not involved.
  - Lifers or first-timers.

- Like legislators:
  - Staff are often called to be in two places at once.
  - Struggle to balance work and family.
  - Staff have to invest the time to understand the Governor’s budget.
What else do you need to know?

- Most staff are committed to public service.
  - Staff were trained to work in the policy arena.
  - Staff want to make a difference.

- Legislatures have become increasingly partisan straining relationships between members.
  - Political tension puts stress on legislators as well as staff.
Final Thoughts

- Working in a legislative body can be rich and rewarding, it’s also:
  - Fast-paced until it slows down.
  - Exhilarating but also frustrating.
- Staff are hired to be a resource to legislators.
  - They possess institutional knowledge.
  - They can also learn from feedback provided by legislators.
Virginia’s budget
Sources of funding

FY 2014-16 Total Revenues = $90.2
Chapter 2 (HB 5002, as Adopted)
($ in millions)

Individual Income 28%
Sales and Use 7%
Corporate Income 2%
Other 4%

General Fund 41%

Note: Data based on 2014-2016 Appropriations Act, Chapter 2 (2014). Additional reductions have occurred since this bill passed.
Economic trends are important because employment, wage gains, and consumer spending account for about 89 percent of all general fund revenues. 2014-2016 general fund revenues = $37.3 billion

Note: Data does not include transfers or balances. Data based on 2014-2016 Appropriations Act, Chapter 2 (2014). Additional reductions have occurred since this bill passed.
Virginia’s budget

A snapshot of the current biennium’s spending

FY 2014-2016 GF Operating Budget = $37,709.2
HB/SB 30
($ in millions)

State Agencies
$11,355.1
30%

Debt Service
$1,359.1
4%

Aid to Localities
$17,371.7
46%

Public Education
$11,185.3
30%

Car Tax
$1,900.0
5%

Community Service Boards
$1,651.8
4%

Local Sheriffs
$979.1
3%

Other Aid to Localities
$1,655.6
4%

Note: Data based on 2014-2016 Appropriations Act, Chapter 2 (2014). Additional reductions have occurred since this bill passed.
Virginia Outlook for the 2015 Session

- Addressing a $2.4 billion budget shortfall has been the focus of 2014.
  - Action to balance the budget occurred over the summer and fall.
  - What remains is fine-tuning of the current two-year budget, including addressing remaining reversion account of $272 million in FY 2016.

- Virginia’s economy will continue to underperform the nation’s.
  - General fund growth rates will lag historical growth rates.
  - SFC staff forecast $150 million of revenue above Interim Forecast.

- Limited budget pressure from mandated spending items.
  - But, will need to identify cuts to fill the remaining reversion accounts.
  - No funding available for high priority items such as higher education, public education, mental health, or salaries.

- Little opportunity to make investments in key areas, unless funded through spending reallocations or identification of other resources.
Our Options to Address Remaining Cuts

- Increase designated reductions in reversion clearing accounts for state agencies, higher education, and local government in FY 2016.

- Make targeted reductions to those programs that were not included in the reversions, namely K-12 public education and Medicaid.

- Identify additional resources:
  - Fees, tuition increases, shift GF to NGF sources.
  - Revisit tax policy choices.

- Some options are off the table – transportation, VRS.

- Think ahead to development of the NEXT biennial budget:
  - Avoid using one-time resources or savings to balance budget.
  - First additional dollar next biennium will go toward:
    - Replacing $237.5 million in Rainy Day Funds propping up FY 2016.
    - Deposit of about $157 million to the Rainy Day Fund required in FY 2017.