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Virginia Governor Bob McDonnell's proposed budget for the next biennium totals nearly \$96 billion, an increase from the \$86 billion for the current two-year cycle that runs through June 2014.

The outgoing governor outlined his proposals to adjust the existing budget and lay a framework for the next one this morning in an address to the General Assembly's money committees.

Buoyed by tax revenue growth and savings strategies, McDonnell's plan seeks to boost spending in several sectors — public and higher education, medical expenditures to provide care to the needy, more funding for mental health and public safety — and contemplates some plums for Hampton Roads.

It also aims to continue rolling back accounting gimmicks, namely a policy to make retailers pay some state taxes early, and deferred investment in Virginia's pension system, used in the depths of the Great Recession to help the state balance its books.

Growth in state lottery proceeds make up part of the \$582.6 million biennial boost for public education McDonnell has proposed. Much of that envisioned appropriation is to finance recalculated state instructional costs.

McDonnell this morning said state economic advisors “have stated to us that the word is caution” for the state's fiscal outlook. And even though Virginia's budget is projected to grow, he said state economic growth is expected to be slower than national trends.

Other proposed support is for a state pre-kindergarten initiative and McDonnell's

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financial aid and other means, and incentive-based spending would achieve McDonnell's goal of boosting degree attainment, especially in the fields of math, science and technology.

New Medicaid spending of \$674 million to support subsidized health care to eligible low-income Virginians is the biggest general fund spending increase in McDonnell's plan, which does not envision expanding the program under the Affordable Care Act.

Gov.-elect Terry McAuliffe campaigned on expanding the joint federal-state program to as many as 400,000 uninsured Virginians, arguing the promise of higher federal match rates would be a boon for the state economy and health care-related employment.

Programs costs are split about 50-50 under the current arrangement. The federal government has pledged to cover nearly all of the costs for state expansion populations.

Virginia lawmakers continue to debate expansion, with Democrats generally favoring it and Republicans opposing it. They want federal authorization for cost-control reforms and remain skeptical a debt-stricken Washington can make good on its promise to underwrite expansion costs.

Medicaid is the fastest growing expense in state government and represents about one-fifth of the annual general fund budget.

Hospitals would again go without inflation in Medicaid reimbursements in the budget's first year but would be in line for them in the second. Nursing homes now get that inflation factor.

Mental health funding would grow by \$38 million as part of a push to revamp the state system after last year's elementary school shooting in Newtown, Conn., and the

November incident in which state Sen. Creigh Deeds was stabbed by his son before

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rainy day fund back above \$1 billion by June 2016.

Locally, McDonnell has programmed \$6.5 million in the budget's second year to fund studies on dredging to deepen the Norfolk harbor and Elizabeth River channel to accommodate cargo ships coming through the expanded Panama Canal.

In another port-minded move, he has proposed an additional \$1.5 million in grant funding to lure private companies into relocating along transportation corridors leading to the shipping terminals.

This budget plan does not include new fees or taxes and lays out a path for state employees to get as much as a 3 percent bonus next year if the state can afford it.

McDonnell has kept McAuliffe apprised of his budget plans. The incoming governor can suggest amendments to the budget after taking office. The final document will be negotiated by the General Assembly and then head to the governor for consideration.

A new accounting tweak in this budget makes the overall sum appear larger than it is because Virginia is factoring in \$3.2 billion in interagency expenses that hadn't been part of the bottom line in the past.

Yet even when that amount is backed out, the \$92.7 billion two-year budget represents 7.8 percent growth from the previous one.

That continues a trend of overall budget growth in both general funds made up of state dollars and non-general funds largely representing money from other sources such as the federal government.

For the two-year period preceding the current cycle, Virginia's budget was \$79 billion.

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