

Number 7 | August 2011

Government
Funding and
Service
Relationships

issue insight

Other reports in the Issue Insight series:

- Regional Analysis and Refinement (#1)
- The High Cost of Low Educational Attainment (#2)
- Survey of the Business Climate in Virginia (#3)
- Evolution of Virginia Performs (#4)
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Dear Reader:

An important role of the Council is to help assess the progress being made towards long-term goals, one of which is being recognized as the best managed state in the nation. This is an ongoing challenge because government, by its very nature, is complex and multi-layered. During 2010-2011, the Council worked with internal and external thought leaders to better understand the issues and opportunities surrounding efficiency and effectiveness in government service delivery.

Virginia and many of its local governments have been widely recognized for sound management practices. But an important challenge to ensuring long-term performance across the spectrum of government services is to understand the relationships that exist between levels of government for core service areas. These relationships are not transparent. For each government service area there are multiple funding flows, rules and regulations, and service delivery roles. The complexity of these relationships can make improving one activity in one government service delivery area difficult.

This Issue Insight, *Government Funding and Service Relationships*, provides a high-level summary of funding and service relationships between levels of government for core service areas. It includes a series of government funding charts that aim to disentangle the complicated spending relationships that exist between the federal government, the Commonwealth of Virginia, and its local governments for core services areas.

As always, your questions and comments are welcome.

Jane N. Kusiak
Executive Director
Council on Virginia's Future

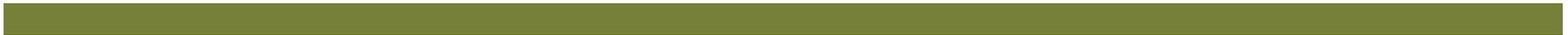


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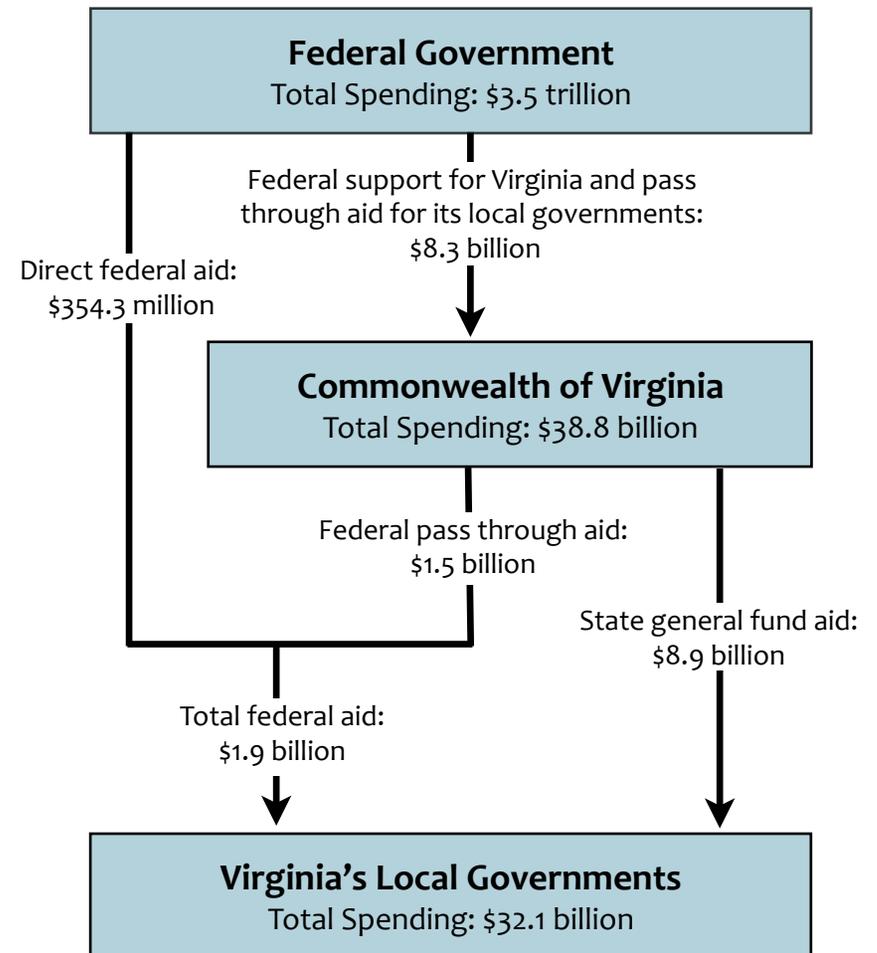
Introduction

This Issue Insight explores intergovernmental funding relationships and service delivery roles at the federal, state, and local levels. These relationships are complicated. However, as a beginning to understanding the nature of intergovernmental funding and service delivery, a high level analysis of these connections was conducted and will serve as the basis for the following discussion.

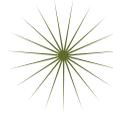
State and local government expenditures represent a sizable portion of the Commonwealth's total economy and continue to grow. Aggregate annual expenditures (from all revenue sources) in fiscal year 2009 in Virginia were \$32.1 billion for local governments and \$38.8 billion for the state.¹ About \$11 billion of annual state spending went to localities and is reflected in both expenditure totals. For instance, all taxpayer revenue does not remain at the level of government at which the tax was levied, and funding moves through various levels of government to deliver government services (Chart 1).

This flow of funds between levels of government, along with sometimes varied approaches to accountability and the sharing of service delivery roles, complicates the process of ensuring high

Chart 1
Intergovernmental Aid for Fiscal Year 2009



¹ Funding data sources are listed at the end of this Issue Insight. These spending totals do not include enterprise activities.



levels of performance (Chart 2). Three issues are discussed here:

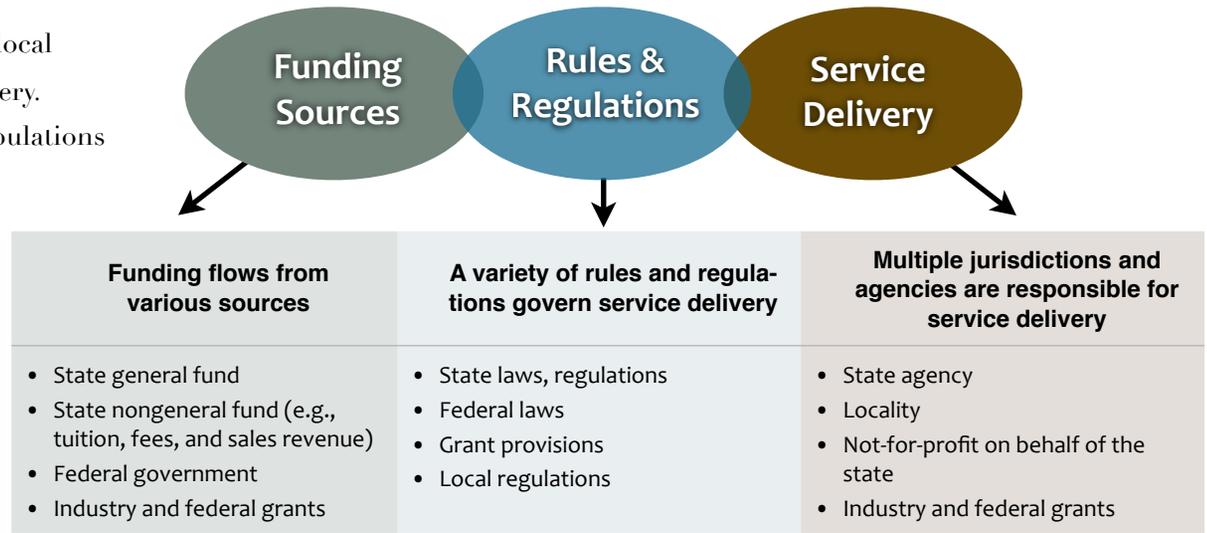
- For certain services, the federal, the state, and its local governments share responsibility for service delivery.
- The state provides certain services directed at populations also served by locally-run programs.
- The state and its localities use multi-locality systems (often with unaligned boundaries) to deliver services.

Government Funding Relationships

The financial relationships between levels of government for major service areas are difficult to define. The following discussion aims to disentangle some of these complexities through a series of high level graphics. [The sources used to create each funding chart are listed at the end of this document.]

Chart 3: Spending by Functional Area, Federal Government, Commonwealth of Virginia, and Virginia’s Local Governments, 2009 (p. 3). At the federal level, income security (28.4%), health and social services (30.9%), and defense activities (19.3%) were a majority of spending, while the state and its local governments spent a significant amount of resources to provide education services. The Commonwealth spent about \$13.5 billion on education, including primary and secondary education (18.6%) and higher / other education (16.2%). Ad-

Chart 2
Optimizing Government Service Delivery: Strategic Challenges



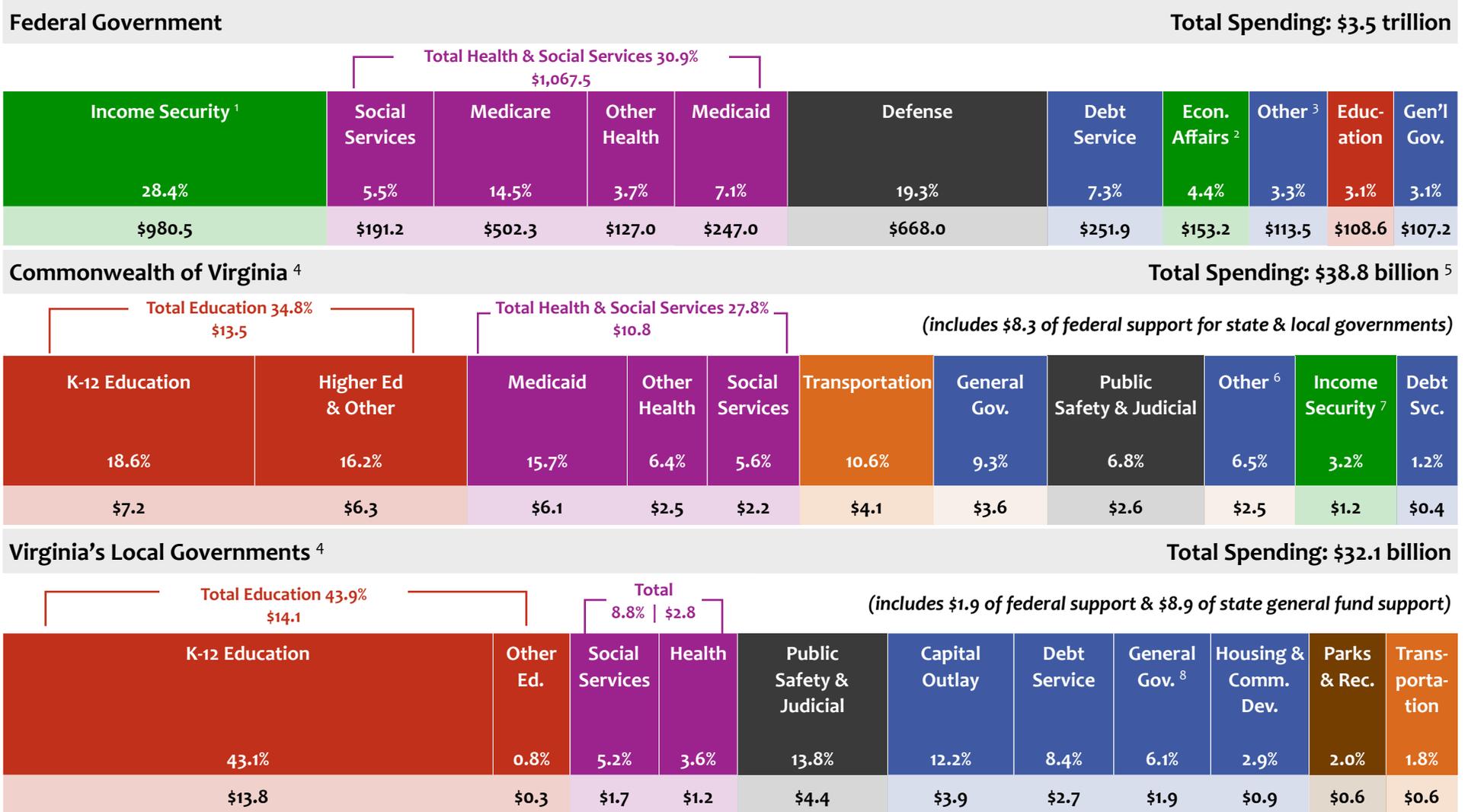
- About 54 percent of the state’s general fund spending was aid to localities in FY2009.
- Accountability systems are sometimes at a different level than rules, regulations, and funding.
- Linkages between performance and funding are sometimes limited.
- Outcome targets are not incorporated into formulas driving significant investment.
- It can be difficult to isolate specific metrics for monitoring outcomes.
- Accountability for outcomes is weakened and diffused when the service or program has multiple funding sources.

ditionally, Virginia’s local governments spent almost half of their resources to deliver primary and secondary education services (43.1%). The federal government, however, only spent 3.1 percent of its resources on education-related activities.

(continued on page 4)



Chart 3
Spending by Functional Area, 2009 (in Billions)
Federal Government, Commonwealth of Virginia, and Virginia's Local Governments



1 Includes social insurance programs (old-age, survivors, railroad retirement, and Social Security Disability), unemployment insurance, and worker's compensation.
 2 Includes space, natural resources, agriculture, postal service, labor, and transportation.
 3 Includes parks and recreation, housing and community development, public safety and judicial administration.
 4 Spending totals do not include enterprise activities, such as higher education auxiliary enterprises, utilities, lottery, alcoholic beverage control, etc.
 5 Total spending for the Commonwealth of Virginia includes general and nongeneral funds.
 6 Includes capital outlay, natural resources (development of alternatives and regulation), economic development promotion and improvement, and general expenditures to promote the economic base.
 7 Includes worker's compensation, unemployment, and support for Disability Determination Services.
 8 Includes sanitation and waste removal, maintenance of general grounds and buildings, legislative administration, elections, and non-school building construction.



Health and social services represent a significant fraction of government spending at all levels: 30.9 percent at the federal level, 27.8 percent at the state level, and 8.8 percent at the local level. Medicare and Medicaid were over two-thirds of total federal health and social services expenditures, while Medicaid was over half of total health and social services expenditures in Virginia.

Chart 3A: Detailed Summary of Spending by Functional Area, Federal Government, Commonwealth of Virginia, and Virginia's Local Governments, 2009 (p. 5). Major spending areas across the multiple levels of government include education, health and social services, transportation, and income security. Each level of government expends resources within each functional area either directly or as an intergovernmental expenditure to support a variety of activities. Generally, a specific service or program is initiated by one level of government, funded by multiple sources, and variously delivered at the same level it was initiated, at another level, or as a shared responsibility between governments. As Chart 3A illustrates, governments spend a significant amount of resources either directly or intergovernmentally to support a variety of activities, each of which has some measure of complex service responsibilities, rules and regulations, and funding streams.

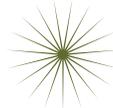


Chart 3A
Detailed Summary of Spending by Functional Area, 2009
Federal Government, Commonwealth of Virginia, and Virginia’s Local Governments

Education

Federal Government: \$108.6 billion

- \$56.5 billion (52.0%) of total federal education expenditures supported K-12 education.
- \$34.2 billion (31.5%) funded higher education programs and services.
- \$17.8 billion (16.4%) supported other education programs that cannot be classified as either K-12 education or higher education.

Commonwealth of VA: \$13.5 billion

- \$7.2 billion (18.6%) of total education expenditures supported K-12 education.
- The state transferred \$5.6 billion (77.9%) to local governments as aid for the Virginia Board of Education’s Standards of Quality.
- \$1.5 billion (20.9%) supported student transportation, school nutrition, school construction, yearly student assessments, special education, and state administration of the K-12 education system.
- \$86.1 million (1.2%) maintained education programs that operate outside school systems, such as correctional education programs, and education services for the deaf and blind.
- \$6.3 billion (16.2%) of total state education expenditures supported higher and other education.
- About \$5.9 billion (94.6%) supported higher education general operations (instruction, research, academic support, libraries, student services, maintenance, and administration).
- \$220.3 million (3.5%) was direct student aid.
- \$116.5 million (1.9%) funded public libraries and museum education programs.

VA Local Governments: \$14.1 billion

- \$13.8 billion (98.2%) supported K-12 education (instruction, administration, health, student transportation, operations, maintenance, nutrition, and non-instruction).
- About \$10.5 billion (76.2%) of the amount above supported classroom instruction.
- \$261.0 million (1.9%) funded other education services including \$2.8 million for community colleges, and \$258.2 million for public libraries.

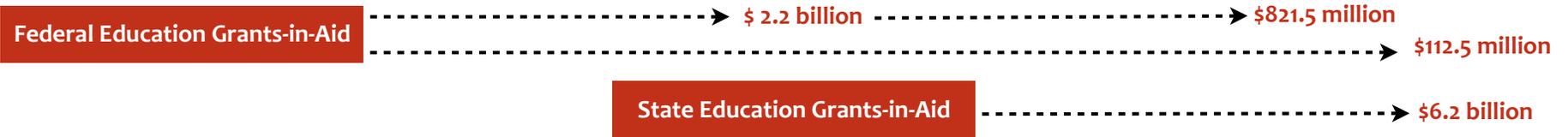




Chart 3A (continued)
Detailed Summary of Spending by Functional Area, 2009
Federal Government, Commonwealth of Virginia, and Virginia's Local Governments

Health and Social Services

Federal Government: \$1.1 trillion

- \$502.3 billion (47.1%) funded the Medicare program.
- \$127.0 billion (11.9%) supported other health services and programs.
- \$247.0 billion (23.1%) funded the Medicaid program.
- \$191.2 billion (17.9%) supported social services programs.

Commonwealth of VA: \$10.8 billion

- \$6.1 billion (56.7%) supported Medicaid.
- \$2.2 billion (20.2%) maintained social services programs such as foster care, day care, adoption, non-residential shelters, low-income energy assistance, weatherization, temporary shelters for the homeless, community action programs, Temporary Assistance to Needy Families (TANF), and payments to hospitals for medical assistance (non-Medicaid).
- \$2.5 billion (23.1%) supported health functions, including health inspections, community health programs, regulation of air and water quality, rabies and animal control, and general and categorical health activities (labs, public education, vital statistics, research, alcohol and drug use prevention/rehabilitation, control of diseases, child health care, and Women Infants Children).

VA Local Governments: \$2.8 billion

- \$1.7 billion (59.1%) supported the administration of social services programs like Temporary Assistance for Needy Families (TANF), food stamps, and energy assistance; day care; foster care; transportation services and property tax relief for the elderly; Area Agencies on Aging; Comprehensive Services Act (CSA); and general public assistance and relief.
- \$1.2 billion (40.9%) supported local health department programs (state-local cooperative programs and local-only programs), pest control, mental health, developmental disability, and substance abuse services.





Chart 3A (continued)
 Detailed Summary of Spending by Functional Area, 2009
 Federal Government, Commonwealth of Virginia, and Virginia's Local Governments

Transportation

Federal Government: \$37.8 billion

- Transportation at the federal level is included in the Economic Affairs functional category.
- Transportation was \$37.8 billion (1.1%) of total federal spending including support for highways (\$1.6 billion), air (\$20.8 billion), water (\$12.5 billion), and mass transit and railroads (\$2.8 billion).

Commonwealth of VA: \$4.1 billion

- \$3.5 billion (85.8%) supported toll and regular highway operations, planning, and construction projects.
- \$584.2 million (14.3%) aided airports, sea and inland ports, mass transit operations, and construction projects.

VA Local Governments: \$581.9 million

- Local government transportation expenditures include the maintenance and operation of highways, streets, bridges and sidewalks, general engineering and administration, traffic engineering, snow and ice removal, parking meters and lots, street lights, and storm drainage.



Income Security

Federal Government: \$980.5 billion

- \$753.3 billion (76.8%) of total income security spending went to social insurance programs, such as old-age, survivors, railroad retirement, and Social Security Disability.
- \$227.3 billion (23.2%) funded programs such as unemployment insurance and worker's compensation.

The Commonwealth of VA: \$1.2 billion

- \$1.2 billion (94.6%) of total income security spending supported unemployment compensation.
- \$38.7 million (3.1%) funded Disability Determination Services, a unit of state government responsible for determining whether a person is disabled and able to receive Social Security Disability benefits.
- \$28.7 million (2.3%) supported worker's compensation claims.

VA Local Governments

- According to the Virginia Auditor of Public Accounts' *Comparative Report of Local Government*, localities include worker's compensation and unemployment within each functional area.



Chart 3B: Virginia General Fund and Nongeneral Fund Spending by Functional Area, 2009. Virginia’s budget includes general and nongeneral funds. The Virginia General Assembly has discretion over how it will spend resources in the general fund, while

nongeneral fund resources are set aside for specified programs and activities. As discussed above, major areas for total state spending in 2009 were education, health and social services, and transportation. Education was the largest driver of state spending with K-12 and

Chart 3B
Virginia General Fund and Nongeneral Fund Spending by Functional Area, 2009 (in Billions)

Commonwealth of Virginia						Total Spending: \$41.6 billion ¹
K-12 Education		Higher & Other Education		Health & Social Services		
17.1% \$7.1		16.5% \$6.9		28.7% \$12.0		
General Fund:	Nongeneral Fund:	General Fund:	Nongeneral Fund:	General Fund:	Nongeneral Fund:	
85.0% \$6.1	15.0% \$1.1	28.9% \$2.0	71.1% \$4.9	33.6% \$4.0	66.4% \$7.9	
Transportation		General Government		Public Safety & Judicial		
9.9% \$4.1		8.7% \$3.6		6.3% \$2.6		
General Fund:	Nongeneral Fund:	General Fund:	Nongeneral Fund:	General Fund:	Nongeneral Fund:	
0.3% \$0.01	99.7% \$4.1	43.4% \$1.6	56.6% \$2.0	88.4% \$2.3	11.6% \$0.3	
Enterprise Activities		Capital Outlay		Resource & Economic Development		Debt Service
4.8% \$2.0		4.6% \$1.9		2.4% \$1.0		1.1% \$0.4
General Fund:	Nongeneral Fund:	General Fund:	Nongeneral Fund:	General Fund:	Nongeneral Fund:	Payments from the General Fund including transfers out and to component units
–	100.0% \$2.0	2.5% \$0.05	97.5% \$1.8	29.5% \$0.3	70.5% \$0.7	

¹ State spending totals and totals for each functional are different from those shown in Chart 1. Different data sources were used and this chart includes enterprise activities.

² Includes natural resources (development of alternatives and regulation), economic development promotion and improvement, and general expenditures to promote economic development of the economic base.



higher / other education accounting for a third of total state expenditures. A majority of K-12 spending at the state level is provided through the general fund (85.0%), while higher / other education expenditures primarily flow through the nongeneral fund (71.1%). About 33.6 percent of health and social services expenditures passed through the general fund, while the remainder (66.4%) came from the nongeneral fund. Almost all transportation dollars spent at the state level originate from the nongeneral fund (99.7%).

The distinction between general fund and nongeneral fund spending is important to understanding the complicated process of managing government and the barriers to change inherent in the ways that government at all levels is funded and managed. Nongeneral funds are, in effect, earmarked for special purposes. While all revenues and expenditures are under the ultimate authority of the General Assembly, funding levels for nongeneral fund activities are generally determined by the amount of revenue collected for a specific nongeneral fund source (federal, enterprise, special, etc.). This implies less direct control over these funds by state elected officials and on the surface makes it difficult to link performance with funding. In addition, the allocation of both general and nongeneral funds is frequently based on formulas established by code or regulation. These formulas are designed to promote fairness but make it difficult to align funding with performance in order to improve service delivery.

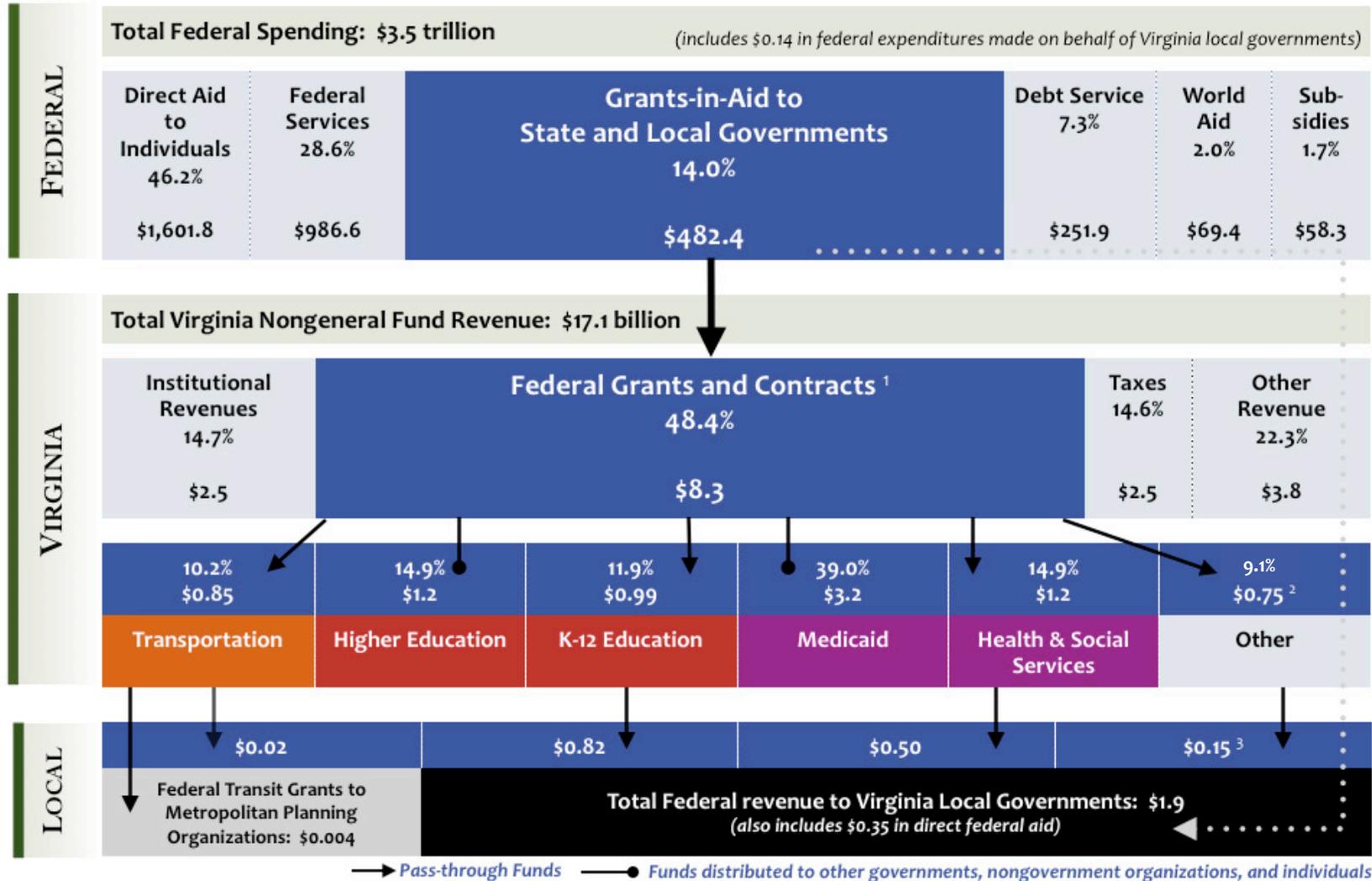
Chart 4: Federal Spending as Revenue for Virginia and its Local Governments, 2009 (p. 10). A significant nongeneral fund revenue source for the Commonwealth is the federal government. Federal revenues are accounted for in the Federal Trust account and designated for specific purposes. Virginia received about \$8.3 billion from the federal government for programs and activities accounting for 48.4 percent of the state's nongeneral fund revenues. Federal grants-in-aid primarily supported transportation (10.2%), higher education (14.9%), K-12 education (11.9%), Medicaid (39.0%), and other health and social service activities (14.9%). Both federal Medicaid and higher education resources are spent at the state level, along with most transportation revenues. However, \$821.5 million of the \$986.7 million Virginia received for primary and secondary education was passed onto Virginia's local governments, and half of non-Medicaid health and social services funds were passed from the state to its local governments.

The federal government designates money for specific programs such as Medicaid, Social Services Block Grants (Title XX), Improving the Academic Achievement of the Disadvantaged (Title I), and Temporary Assistance for Needy Families (TANF) which contributes to the delivery of services at both the state and local level. Virginia and its local governments often have little authority over what these federal funds (\$8.3 billion) are spent on, but must comply with detailed federal grant and/or regulatory requirements. Virginia through its general fund resources has wider scope in its

(Continued on page 11)



Chart 4
Federal Spending as Revenue for Virginia and Its Local Governments, 2009 (in Billions)



¹ The figure for federal grants and contracts is derived from the Virginia Auditor of Public Account's Commonwealth Data Point system; the remaining nongeneral fund revenues (institutional, taxes, and other) are derived from the 2010 Executive Budget Document, Revenue Forecast prepared by the Department of Planning and Budget.

² Includes public safety, judicial administration, general government, housing and community development, etc.

³ Includes general government, public safety, judicial administration, parks and recreation, and housing and community development.



ability to refine state-local relationships to improve the quality and cost effectiveness of public services in the Commonwealth.

Chart 5: Federal Per Capita Grants-in-Aid, Lowest Five States by Major Program, 2009. The federal government spent about \$1,138 per capita in Virginia on direct grants-in-aid. Virginia, when compared to other states for FY2009, was ranked last in per capita federal grant expenditures. An analysis of per capita federal grants-in-

aid by major programs revealed that Virginia received well below the national average for major programs, such as TANF, Medicaid, Title I, and the highway trust fund.

Chart 5
Federal Per Capita Grants-in-Aid, Lowest Five States by Major Program, 2009

	U.S. Average	Virginia	Nevada	Florida	Colorado	Georgia
Total Population	307,006,550	7,882,590	2,643,085	18,537,969	5,024,748	9,829,211
Per Capita Grants-in-Aid	\$1,798.36	\$1,138.00	\$1,189.08	\$1,223.77	\$1,260.32	\$1,317.80
Medicaid Per Capita Grants-in-Aid	\$834.26	\$469.56	\$363.10	\$583.78	\$442.81	\$613.53
TANF Per Capita Grants-in-Aid	\$58.78	\$26.39	\$26.52	\$35.33	\$37.66	\$37.50
Highway Trust Fund Per Capita Grants-in-Aid	\$115.98	\$107.17	\$141.49	\$81.89	\$93.58	\$128.66
Title I Per Capita Grants-in-Aid	\$40.56	\$26.44	\$33.30	\$37.94	\$27.32	\$0.00
Other Programs Per Capita Grants-in-Aid	\$748.78	\$508.45	\$624.67	\$484.83	\$658.94	\$538.11



Chart 6: Federal Per Capita Spending: Top Five States by Spending Area, 2009. Virginia’s proximity to the federal government and its large defense presence yield significant federal spending in Virginia for procurement, grants, salaries and wages, other direct payments, and retirement and disability. In 2009, federal spending in the Commonwealth was approximately \$155.6 billion, which

yielded the second highest per capita spending rate in the nation. Procurement was the biggest driver of federal expenditures in Virginia (52.6%). A majority (63.1%) of Virginia’s federal procurement contracts were defense-related. On the surface, Virginia’s location seems to give the state an economic advantage when it comes to doing business with the federal government.

Chart 6
Federal Per Capita Spending: Top Five States by Spending Area, 2009

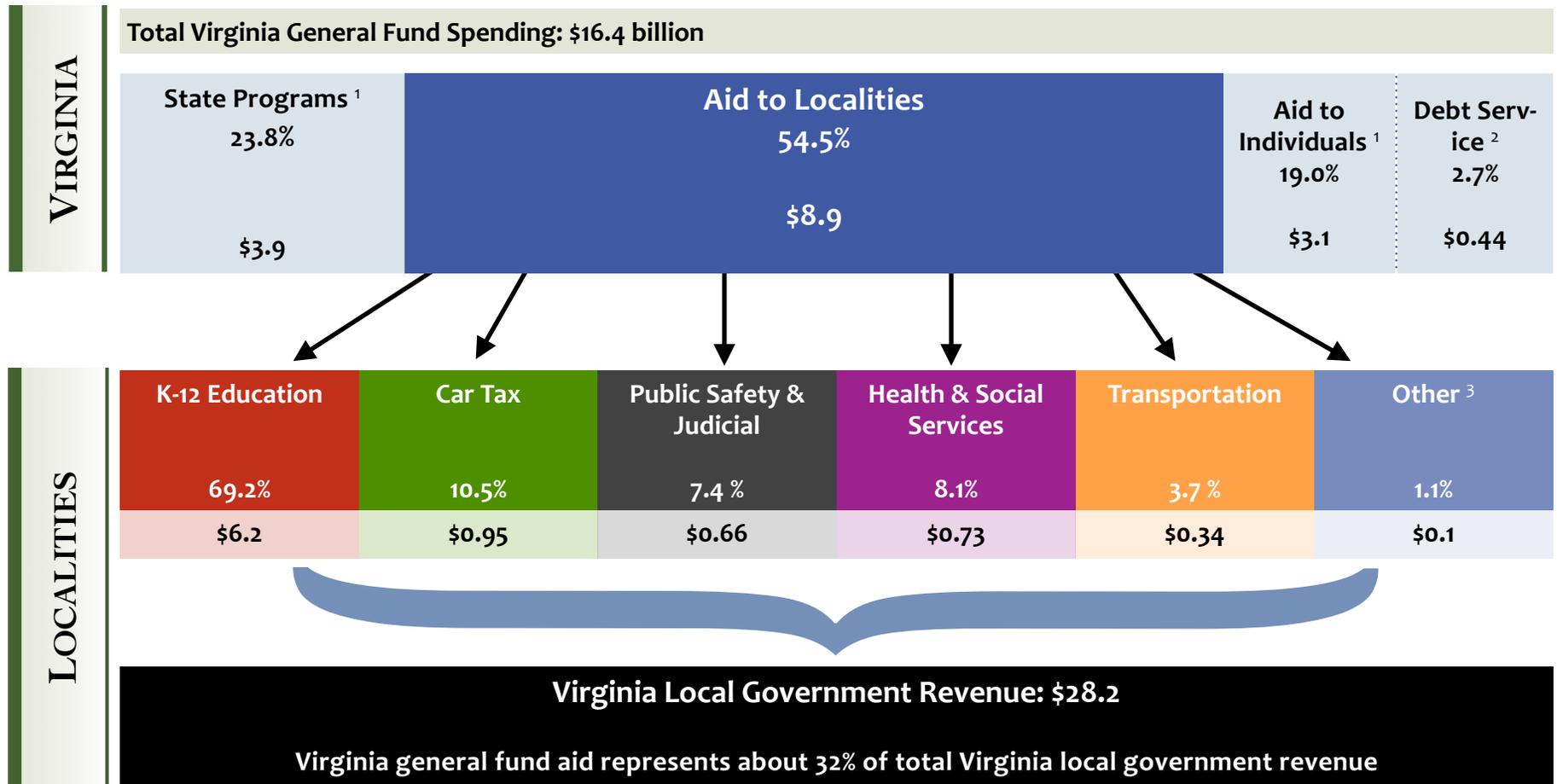
	U.S. Average	Alaska	Virginia	Hawaii	Maryland	New Mexico
Total Population	307,006,550	698,473	7,882,590	1,295,178	5,699,478	2,009,671
Per Capita Spending	\$10,548.18	\$20,351.54	\$19,733.87	\$19,001.25	\$16,169.02	\$13,669.90
Defense Procurement Per Capita Spending	\$1,155.25	\$4,979.20	\$6,547.64	\$1,241.95	\$3,083.04	\$658.49
Non-Defense Procurement Per Capita Spending	\$638.86	\$2,133.27	\$3,829.28	\$162.40	\$2,941.93	\$3,191.00
Retirement & Disability Per Capita Spending	\$2,869.99	\$2,200.51	\$3,456.61	\$3,259.78	\$3,236.96	\$3,211.97
Salaries & Wages Per Capita Spending	\$975.27	\$4,478.34	\$2,315.61	\$4,753.01	\$2,321.44	\$1,255.43
Grants Per Capita Spending	\$2,423.78	\$5,305.86	\$1,607.34	\$2,515.48	\$2,071.24	\$3,459.77
Other Direct Payments Per Capita Spending	\$2,485.04	\$1,252.73	\$1,968.26	\$7,086.53	\$2,514.44	\$1,893.84



Chart 7: Virginia General Fund Spending as Aid to Local Governments, 2009. The Commonwealth of Virginia supports a variety

of local government activities. In 2009, Virginia spent about \$8.9 billion, over half of its general fund, to aid local governments.

Chart 7
Virginia General Fund Spending as Aid to Local Governments, 2009 (in Billions)



¹ Numeric values for state programs and aid to individuals generated through a ratio analysis using data from the Departments of Accounts' General Fund Preliminary (Unaudited) Annual Report for 2009 and Secretary of Finance Richard Brown's presentation on Core Services and Trends Affecting Intergovernmental Relations.

² Debt service figure represents the Commonwealth's component units and a transfer out of the general fund to other Commonwealth funds.

³ Includes general government, maintenance of general grounds and buildings, parks and recreation, higher and other education, and housing and community development.



The majority of this support (69.2%) was for primary and secondary education services, which are delivered at the local level.

total local government revenue in Virginia. Local resources were about 61 percent of total local government revenues, with the federal government furnishing about 6.6 percent. However, the mix of revenue sources (federal, state, local) varied between Virginia local-

Chart 8: Revenue Sources for Selected Virginia Local Governments, 2009. State funds accounted for about 33 percent of

Chart 8
Revenue Sources for Selected Virginia Local Governments, 2009 (including support for education)

Virginia's Local Governments			Total Revenue: \$28.1 billion ¹
Local Funds 60.7% \$17.1 billion	State Funds 32.7% \$9.2 billion	Federal Funds ² 6.6% \$1.9 billion	
City of Alexandria			Total Revenue: \$629.6 million
Local Funds 78.8% \$496.3 million	State Funds 15.8% \$99.4 million	Federal Funds 5.4% \$33.9 million	
City of Danville			Total Revenue: \$158.6 million
Local Funds 40.9% \$64.9 million	State Funds 49.4% \$78.4 million	Federal Funds 9.7% \$15.3 million	
County of Fairfax			Total Revenue: \$4.4 billion
Local Funds 77.4% \$3.4 billion	State Funds 17.3% \$766.3 million	Federal Funds 5.3% \$233.1 million	
County of Wise			Total Revenue: \$116.9 million
Local Funds 38.2% \$44.6 million	State Funds 51.0% \$59.6 million	Federal Funds 10.8% \$12.6 million	

¹ Revenue totals do not include money for capital outlay and enterprise activities.

² Federal funds includes pass-through and direct aid.



ties. In wealthier localities, state funds were a lower percentage of total revenue, while state funds were a higher proportion of revenues in economically distressed localities. For example, state funds were about 15.8 percent of Alexandria’s total revenue in 2009 but about 49.4 percent of Danville’s total budget.

Chart 9: Revenue Sources for Virginia’s Local Governments by Functional Area, 2009. An analysis of local government spending by functional areas (excluding capital outlay and enterprise activities) and the revenue sources for each expenditure area further reveals that education received half of its support from state (44.4%) and federal (6.6%) sources, with local resources contributing 49.0

Chart 9
Revenue Sources for Virginia’s Local Governments by Functional Area, 2009 (in Billions)

Virginia’s Local Governments						Total Spending: \$28.2 billion ¹		
<i>(includes \$1.9 of federal ² and \$8.9 of state general fund ³ support)</i>								
Education 50.0% \$14.1						Public Safety & Judicial Administration 15.8% \$4.4		
Local 49.0% \$6.9		State 44.4% \$6.3		Federal 6.6% \$0.93		Local 81.5% \$3.6	State 14.9% \$0.66	Federal 3.6% \$0.16
Health & Social Services 10.0% \$2.8			Debt Service 9.6% \$2.7		General Government 6.9% \$1.9			
Local 54.7% \$1.5	State 25.9% \$0.73	Federal 19.4% \$0.55	Local 99.7% \$2.7	State & Federal 0.3% \$0.008	Local 96.5% \$1.9	State 3.1% \$0.06	Federal 0.4% \$0.007	
Housing & Community Development 3.3% \$0.94			Parks & Recreation 2.3% \$0.65			Transportation 2.1% \$0.58		
Local 77.7% \$0.73	State 3.7% \$0.03	Federal 18.6% \$0.18	Local 99.3% \$0.64	State 0.2% \$0.001	Federal 0.6% \$0.004	Local 38.2% \$0.22	State ⁴ 57.9% \$0.34	Federal 3.9% \$0.02

¹ Total spending for Virginia’s local governments excludes enterprise activities and capital outlay.

² Federal aid includes pass-through and direct aid.

³ State support excludes enterprise activities and capital outlay.

⁴ Primarily includes reimbursements from the Commonwealth’s Urban Street Maintenance Program.



percent of total education expenditures. Local health and social services received about half of their support from the state (25.9%) and federal (19.4%) governments while local sources were more than half of total local health and social services expenditures. Local government resources, however, account for the highest percentage of spending for functions such as debt service (99.7%), public safety and judicial administration (81.5%), general government (96.5%), parks and recreation (99.3%), and housing and community development (77.7%). Transportation expenditures at the local level received a significant amount of state support (57.9%) through its urban construction and maintenance program.

Chart 10: Revenue Sources for K-12 Education Spending, Selected Virginia Local Governments, 2009. In order to receive state aid for certain programs, localities must match state funds. In the area of primary and secondary education, local governments receive general operating resources from the state to meet the requirements set forth in its Standards of Quality program. The required local match to receive state funds for general operations (instruction, administration, transportation, health, maintenance, nutrition, and non-instruction) is based on a locality's composite index. An analysis of K-12 spending in 2009 at the local level by revenue source illustrates that, of to-

tal local resources spent for K-12 education services, about 59.2 percent or \$3.9 billion was required to receive state funds. Yet localities over-matched state funding requirements and spent about \$2.7 billion additionally on primary and secondary education. Each

Chart 10: Revenue Sources for K-12 Education Spending, Selected Virginia Local Governments, 2009





locality's composite index is based on a formula that determines ability to pay; however, an analysis of the cities of Alexandria and Danville, and Fairfax and Wise counties illustrate that economically distressed localities still overmatch state requirements by about 50 percent to deliver education services.

Chart 11: General Fund Appropriations to Localities, FY2009 to FY2012 (pg. 18). An analysis of general fund budget data for FY2009-2012 reveals declining state support for local education, health and social services, and public safety functions. Ebbing state support for local service delivery presents a challenge to the state's financial role in fostering efficiency and effectiveness in a state-local service delivery system.

Chart 10 (continued): Revenue Sources for K-12 Education Spending, Selected Virginia Local Governments, 2009

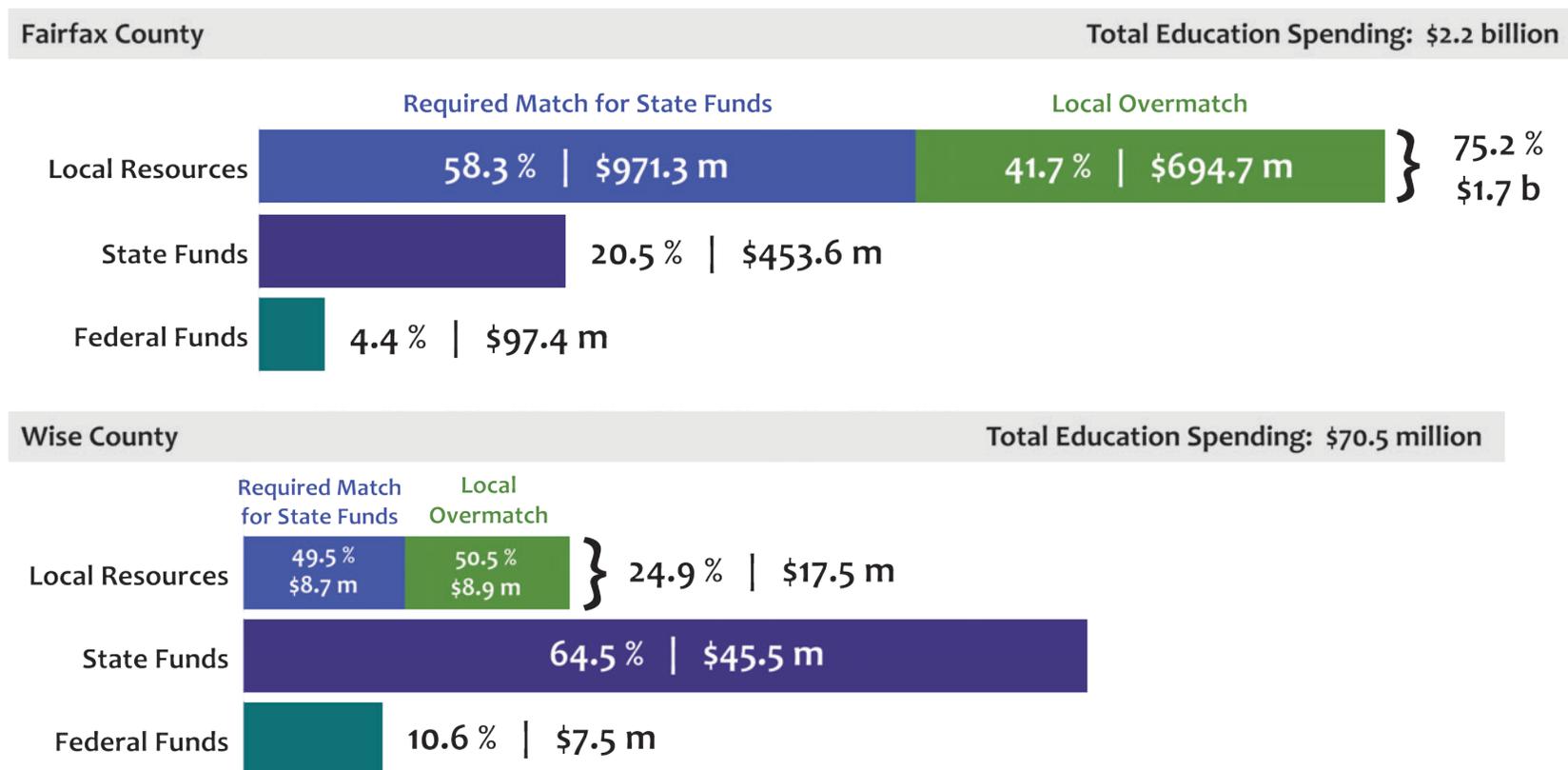




Chart 11
General Fund Appropriations to Localities, FY 2009 to FY 2012 (in Millions)

	FY2009	FY2010	FY2011(I)	FY2012(I)
General Fund Direct Aid to K-12	\$5,607.6	\$4,769.8	\$4,714.5	\$4,877.8
Health and Social Services	\$888.4	\$878.7	\$816.8	\$803.8
Comprehensive Services Act (CSA)	\$299.7	\$279.2	\$271.2	\$257.6
Community MH/MR Services	\$249.4	\$256.5	\$230.1	\$241.5
Local Social Services Staff	\$117.4	\$117.4	\$114.4	\$111.4
Community Health Programs	\$117.6	\$116.9	\$106.1	\$105.5
Social Services and Programs	\$104.3	\$108.7	\$95.0	\$87.8
Public Safety	\$734.3	\$556.8	\$687.3	\$648.5
Local Sheriffs Offices	\$406.1	\$257.1	\$408.2	\$393.2
Local Police Departments HB599	\$197.3	\$180.8	\$178.7	\$160.0
Local Jail per diem	\$80.1	\$68.1	\$55.0	\$49.9
Assistance for Juvenile Justice	\$50.8	\$50.8	\$45.4	\$45.4
Constitutional Officers	\$155.3	\$142.2	\$144.2	\$143.8
Car Tax	\$950	\$950	\$950	\$950
Aid-to-Locality Reductions	-\$50	-\$50	-\$60	-\$60
Total Local General Fund Aid	\$8,285.6	\$7,247.5	\$7,252.8	\$7,363.9
Total General Fund Appropriations	\$15,943.0	\$14,787.2	\$15,464.4	\$16,328.5

Regimbal, J, Fiscal Analytics, Ltd., "Where is Virginia's Budget Headed?" [Slide Presentation] (2011).



Service Delivery Roles

Shared service responsibilities, coupled with complex funding flows and hierarchies of rules and regulations, can make it difficult to refine existing relationships to improve efficiency and effectiveness. The following discussion provides a brief and high-level overview of how service roles are divided between the state and its local governments for the significant funding areas of K-12 education, health and social services, and transportation.

Chart 12: Selected State-Local Roles and Responsibilities for K-12 Education (p. 20). K-12 education services in Virginia are state supervised and provided locally.² Section 1 of Article VIII of the Virginia Constitution requires the General Assembly to provide for a public education system and ensure that it is of high quality. The Standards of Quality established in Section 2 of Article VIII of the Virginia Constitution further enables the Board of Education and Virginia General Assembly to determine the requirements that Virginia school systems should meet in delivering education services. Current criteria included in the Standards of Quality (SOQ) pertain to instructional programs, personnel, accreditation, student

achievement and graduation, teacher quality, comprehensive planning, and school board policies.³

However, local education agencies are responsible for providing K-12 education services such as instruction, administration, transportation, general operations, maintenance, health, nutrition, and non-instructional programs, and in implementing a variety of education services local school divisions must satisfy all federal and state regulations and requirements. For example, school districts must provide self-assessment data to the Virginia Department of Education (VDOE) via an electronic system for specific indicators associated with each Standard of Quality.⁴ VDOE uses this data to ensure all local school divisions meet state SOQ requirements. In addition, local education agencies must develop and implement instructional programs for grades K-12 that are aligned with the Virginia Board of Education's Standards of Learning (SOL) program and further ensure that students demonstrate attainment through the state's annual assessments.⁵

In this system, performance is driven primarily by local leadership. The state currently allocates support to local school divisions based

² Joint Legislative Audit and Review Commission, *State/Local Relations and Service Responsibilities: A Framework for Change*, S. Doc. 37 [online report] (Richmond, Va., 1993); <http://jlarc.virginia.gov/reports/Rpt150.pdf>.

³ Code of Virginia (2009) §22.1-253.13:1 to (2010) 22.1-253.13:9.

⁴ Virginia Board of Education, 2009 Annual Report on the Condition and Needs of Public Schools in Virginia [online report] (Richmond, Va., 2009); <http://www.doe.virginia.gov/boe/reports/index.shtml>.

⁵ Code of Virginia (2009) §22.1-253.13:1.



on a funding formula that quantifies local ability to pay. The SOQ formula, however, does not integrate outcomes into its variables, making it difficult for the state to drive performance through funding incentives or disincentives. This situation is one of the man-

agement challenges frequently found in government service: the Commonwealth provides significant funding but it can influence performance and outcomes only indirectly through reporting requirements, audits, and performance standards.

Chart 12
Selected State-Local Roles and Responsibilities for K-12 Education

K-12 Education		
	State	Local
Funding Roles	<ul style="list-style-type: none"> • Determine state and local funding shares for the Standards of Quality (SOQ) through a funding formula. • Provide minimal assistance for school construction. 	<ul style="list-style-type: none"> • Provide financial support school to local education agencies. • Provide funding for school construction.
Regulation and Accountability Roles	<ul style="list-style-type: none"> • Establish SOQ that create minimum requirements for instructional programs, personnel, accreditation, student achievement and graduation, teacher quality, comprehensive planning, and school board policies. • Develop guidelines for alternative education programs (special, gifted, home school, technical, vocational, etc.). • Create procedures for non-instructional programs (transportation, nutrition, record management, etc.). • Develop academic standards for students (Standards of Learning) and accountability assessments. • Ensure compliance with state and federal regulations through various assessments and reporting structures and procedures. 	<ul style="list-style-type: none"> • Provide self-assessment data for a series of indicators via an electronic system to the Virginia Department of Education (VDOE) to illustrate compliance with Code §22.1-253.13:1-13:8 (Standards of Quality). • Comply with state and federal regulations for alternative education programs. For example, local education agencies must provide the VDOE with a completed Special Education Plan and Application for Federal Funding each year to verify adherence to state and federal regulations and provide a plan for implementing special education services. • Comply with procedures for non-instructional programs. For example, VDOE will conduct on-site assessments and evaluate pupil transportation services on a regular basis. • Educate students based on the state-established program and administer state-wide education assessments (Standards of Learning).
Service Roles	<ul style="list-style-type: none"> • Provide technical assistance, research, and support to local education agencies. 	<ul style="list-style-type: none"> • Implement K-12 education instruction, nutrition, transportation, administrative, health, guidance, counseling, and general operation services. • Operate alternative education programs (special, gifted, vocational, technical, etc.).



Chart 13: Selected State-Local Roles and Responsibilities for Health and Social Services. The issues of multiple funding streams, varied regulatory management systems, and layered service delivery are particularly visible in the health and social services

functional area. In this arena, a wide array of services are funded and administered by state, local, and nongovernmental agencies.⁶

Chart 13
Selected State-Local Roles and Responsibilities for Health and Social Services

Health and Social Services		
	State	Local
Funding Roles	<ul style="list-style-type: none"> • Provide financial support for health departments and services, Community Service Boards (CSBs), social service benefit programs (i.e. Medicaid), and other social service functions and distribute state and federal support to localities, accordingly. 	<ul style="list-style-type: none"> • Provide financial support for CSBs, social service departments, locally established social service programs, and local health departments and services.
Regulation and Accountability Roles	<ul style="list-style-type: none"> • Negotiate and monitor 40 unique performance contracts with CSBs. • Conduct (federally required) reviews of Medicaid eligibility determinations and investigates suspected cases of fraud. • Prepare statewide plans in compliance with federal regulations for governing federally funded social service programs (TANF, child support enforcement, SNAP, etc.). • Withhold reimbursements (entire or part) for local social service departments if a local office fails to comply with state and federal regulations. 	<ul style="list-style-type: none"> • Negotiate and submit performance contracts to the state for CSBs and meets the conditions and obligations set forth in the contract. • Verify Medicaid eligibility, and can investigate cases of suspected fraud. • Retain records for benefit programs (TANF, SNAP, Energy Assistance) and create statistical reports subject to review by the Virginia Department of Social Services.
Service Roles	<ul style="list-style-type: none"> • Provide guidance, direction, and monitoring to local CSBs, and operate nine mental health facilities. • Facilitate interstate/intercounty adoptions, hear grievance cases on the delivery of social services, and enforce child support payments. • Deliver health services (prevention, education, inspection, etc.) through local health departments except for Arlington and Fairfax counties 	<ul style="list-style-type: none"> • Deliver mental health, developmental disability, and substance abuse services through CSBs. • Determine eligibility for social service benefit programs (TANF, SNAP, Medicaid, etc.), and other services (adoption, foster care, adult and child protective services, etc.) through local social service departments.

⁶ Joint Legislative Audit and Review Commission, *State/Local Relations and Service Responsibilities: A Framework for Change*.



- Local health departments are state-run and funded by federal, state, and local governments.
- Community-based mental health, developmental health, and substance abuse services are delivered by 40 locally governed Community Services Boards (CSBs) funded by federal, state, and local sources.
- Social service departments are locally run and funded with federal, state, and local dollars.

Primarily, the state manages health services through health districts and local health departments. With few exceptions (Arlington and Fairfax) these local health offices are staffed by state employees and are responsible for providing and conducting educational programs on a variety of health issues, on-site sewage and water inspection, food inspection and sanitation, prevention activities for chronic and communicable diseases, and emergency response planning.⁷

Entry into the state's health system for mental health, developmental disability, and substance abuse services is through locally managed Community Service Boards. Local government participation in a CSB is required by state law. The Virginia Department of Behavioral Health and Developmental Services (VDBHDS) licenses the

state's 40 CSBs and provides program guidance, funding, and consultation to the locally operated boards. Furthermore, each CSB establishes a performance contract with VDBHDS for the delivery of community health services, and is held accountable to the definitions and standards set forth in the contract by VDBHDS. CSBs offer emergency, local inpatient, outpatient, case management, day support, residential, prevention, and early intervention services.⁸

Social services programs in Virginia are managed and delivered through 120 local departments of social services, the Virginia Department of Social Services (DSS), and community action programs. Most of the social services provided by Virginia are delivered through locally operated social services offices, which are primarily responsible for client contact and determine eligibility for state and federal benefit programs such as Medicaid, TANF, Supplemental Nutrition Assistance Program (SNAP), and energy assistance.⁹ In addition, local departments of social services implement programs and services that include adoption, early childhood development, adult protection, and foster care. Local social services departments must retain records for each program administered, which are subject to review by appropriate state and federal organizations.

⁷ Joint Legislative Audit and Review Commission, *State/Local Relations and Service Responsibilities: A Framework for Change*.

⁸ Virginia Department of Behavioral Health and Developmental Services, *Community Service Boards*, <http://www.dbhds.virginia.gov/SVC-CSBs.asp#cs>.

⁹ Virginia Department of Social Services, *Organizational Structure*, <http://www.dss.virginia.gov/division/index.cgi>.



In addition to holding local social services departments accountable through regulations and requirements and providing funding support, the Commonwealth is responsible for child support enforcement and hearing grievance cases related to service delivery.¹⁰ While most adoption programs are delivered locally, the state facilitates interstate / inter-county adoptions, oversees the Interstate Compact on Adoption and Medical Assistance (ICAMA), and maintains adoption records and disclosures.¹¹ DSS provides training, program consultation, monitoring, and technical assistance to local social services departments through five regional offices. Furthermore, the state can withhold reimbursements from a local social services office if it fails to comply with state and federal regulations.¹²

A complicating factor from a leadership perspective – or perhaps more importantly, from the viewpoint of consumers – is that each federal, state, and local health and social services agency operates multiple programs, each with its own funding streams, missions, target groups, and reporting requirements. Medicaid highlights some of these management coordination challenges. It is a health program for people and families with low income or disabilities funded by state and federal resources. The federal government initiated the program through the Social Security Act of 1965. If they

choose to participate, states can manage their own programs; however, since the federal government provides the funding for Medicaid, it sets forth certain standards which states must adhere to upon receipt of such funding. (The federal government provided \$3.2 billion to Virginia for Medicaid in 2009.) Each state determines its own standards for Medicaid within these regulations, provides substantial funding (Virginia spent \$2.9 billion for Medicaid in 2009), and manages daily program operations. The Department of Medical Assistance Services in Virginia is ultimately responsible for the implementation of Medicaid.

Interestingly, in Virginia Medicaid income eligibility is determined at locally run social services offices, which the state supports but does not manage. Disability Determination Services (DSS), a unit of the Department of Rehabilitative Services, determines whether or not a person is disabled and eligible for program inclusion. As in the case of Medicaid, shared service responsibilities, multiple funding sources, and hierarchies of rules and regulations can make the process of changing one activity in one government service area difficult.

Chart 14: Selected State-Local Roles and Responsibilities for Transportation. Transportation services in Virginia include the

¹⁰ Virginia Department of Social Services, Organizational Structure, <http://www.dss.virginia.gov/division/index.cgi>.

¹¹ Ibid.

¹² Code of Virginia (1950) §63.2-408.



Chart 14
Selected State-Local Roles and Responsibilities for Transportation

Transportation		
	State	Local
Funding Roles	<ul style="list-style-type: none"> • Fund highway construction and operations in most counties. • Reimburse cities for urban street maintenance and construction. • Provide funding for non-highway transportation projects (airports, sea and inland ports, mass and public transit, bike, pedestrian). 	<ul style="list-style-type: none"> • Fund highway construction and operations in cities, and Henrico and Arlington counties. • Provide required two percent match to receive state urban construction funds (no match required for state maintenance funds). • Provide funding and required matches to receive state and federal aid for non-transportation projects.
Regulation and Accountability Roles	<ul style="list-style-type: none"> • Conduct internal audits on highway administration and finance, construction, maintenance (including locally operated roads), and information technology to ensure compliance with state and federal policies and procedures. • Conduct or assist in conducting federally required safety inspections for airports and rail transportation services. 	<ul style="list-style-type: none"> • Report bridge and pavement performance annually to the state as a condition of receiving state urban maintenance funds. • Comply with the requirements for the federal National Environmental Protection Act (NEPA) in developing and constructing local non-highway transportation projects that will use federal Transportation Enhancement money managed by the state.
Service Roles	<ul style="list-style-type: none"> • Include locally identified highway projects into the Six-Year Improvement Program for state and federal funds. • Manage interstate and highway construction projects and general operations in counties. • Conduct research and provide technical assistance to localities for highway and non-highway transportation services. 	<ul style="list-style-type: none"> • Develop Six-Year Improvement Plans for highway construction. • Manage highway construction projects and general operations in cities and Henrico and Arlington counties. • Operate airports and public transportation systems. • Develop sidewalk, bike lane, and rail to trail projects.

highway system, mass transit systems, sea and inland port facilities, a network of airports, and bike and pedestrian trails. Prior to 1932, localities were responsible for the construction and maintenance of roads. With passage of the Byrd Road Act, the state assumed re-

sponsibility for road operations and construction in counties, with a few exceptions.¹³ Municipalities, along with Henrico and Arlington counties, are primarily responsible for road maintenance and construction within their boundaries. Although the state does not

¹³ Joint Legislative Audit and Review Commission, *State/Local Relations and Service Responsibilities: A Framework for Change*.



have direct control over urban roads, it still contributes monetary support through its urban construction and maintenance program. In order to receive state funds, municipalities must comply with state regulations and rules and, in addition, cities with a population over 3,500 must provide a two percent match in order to receive state and federal construction support (no match is required for state urban maintenance funds).¹⁴ In several instances, the state provides cities with operation and construction services for primary roads (those typically with four lanes that connect cities to towns) through mutual aid agreements. In addition, the state provides further transportation support to localities through its revenue sharing programs that match local funds for road maintenance, improvement, and construction projects. All locally developed and proposed transportation projects in need of state and federal funds are prioritized through the state's Six-Year Improvement Program. As with K-12 education and health and social services, multiple service responsibilities, varied funding sources, and layered rules and regulations can make the process of enhancing performance throughout Virginia's highway system difficult.

Localities further develop and implement proposals for sidewalks, bike lanes, and rail-to-trail projects. The state provides financial assistance to such projects through the federally funded Transportation Enhancement (TE) program. Projects that receive TE support

must comply with the National Environmental Protection Act's (NEPA) rules and regulations, and illustrate compliance through project proposals and required environmental studies. Localities also operate and manage airports and mass transit systems; however, the state provides grant funding and technical assistance for these services. For example, the state through the Department of Aviation licenses public airports, conducts or assists in conducting airport inspections, and assists in the development of Six-Year Capital Improvement Plans for airports required by the Federal Aviation Administration.¹⁵

Chart 15: Service Delivery Boundaries (p. 26). Additionally, the state provides some funding for multi-locality service delivery, which includes Community Services Boards, health districts, Workforce Investment Boards, Planning District Commissions, and road building and maintenance. The boundaries of these systems do not align consistently with each other and can create confusion for consumers of government services. Moreover, multiple service area definitions can lead to a less than optimal framework within which to coordinate, evaluate, and improve efficiency and effectiveness of current service delivery systems.

¹⁴ Local Assistance Division of the Virginia Department of Transportation, Urban Maintenance and Construction Manual (2007), [http://www.virginiadot.org/business/local-assistance-programs.asp#Urban Highways](http://www.virginiadot.org/business/local-assistance-programs.asp#Urban%20Highways).

¹⁵ Virginia Department of Aviation, Airport Services Division (2006), http://www.doav.virginia.gov/airport_services_division2.htm.



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