

Resources

The budget, as introduced, includes a net increase of \$572.3 million in general fund resources available for appropriation during the 2006-08 biennium, excluding offsetting transfer and appropriation accounting adjustments related to the Rainy Day Fund. (See explanation at end of Resource section).

This additional \$572.3 million results primarily from three resource adjustments: (1) reversion of \$105.7 million in agency operating balances to the general fund at the end of FY 2006; (2) a \$534.0 million adjustment to the biennial revenue forecast due to continued strength in nonwithholding and corporate collections, partially offset by a negative adjustment in recordation taxes (proposed tax policy changes reduce the revenue adjustment to \$521.7 million); and (3) a \$41.4 million reduction of Lottery profits from expected sales declines along the North Carolina border.

General Fund Resources Available for Appropriation (2006-08 biennium, \$ in millions)			
	<u>Chap. 3/10</u>	<u>HB 1650/SB 750</u>	<u>Change</u>
Available Balances	\$1,544.1	\$1,654.8	\$110.7
Revenue Estimate	31,702.9	32,224.6	521.7
Transfers/Deposits:			
Lottery Proceeds Fund	853.1	811.7	(41.4)
Other Transfers	732.6	713.9*	<u>(18.7)*</u> (60.1)
Total GF Resources Available	\$34,832.7	\$35,405.0*	\$572.3*
Plus: Unappropriated Balance (Chapters 3/10)			\$113.1
Total Resources Available			\$685.4
<i>*Note: Excludes \$157.3 million in Rainy Day Fund accounting adjustments for transfers that are offset by appropriation adjustments.</i>			

In addition, Chapter 10 (2006 Special Session 1) included an unappropriated balance of \$113.1 million. When combined with the available balance and revenue adjustments, resources available total \$685.4 million.

Available Balances

Balance adjustments include disposition of unspent capital and operating balances from fiscal year 2006 and accounting for a payroll that was advanced from July to June 30, due to uncertainty over the date that the 2006-08 budget would be adopted.

The fiscal year 2007 balance is increased by \$134.2 million to reflect a planned payroll reversion, since the payroll in question, which was appropriated in fiscal year 2007, was actually paid from fiscal year 2006 balances.

Fiscal year 2006 capital balances of \$125.8 million and mandatory agency carry-forward balances of \$119.3 million are reappropriated, leaving \$129.5 million of discretionary agency operating balances at the end of fiscal year 2006. The introduced budget returns \$23.8 million of this discretionary amount to agencies, and reverts \$105.7 million in unspent balances for use in the 2006-08 budget.

An increase in the available balance of \$14.8 million results from unspent funds that remain in the Local Personal Property Tax delinquent bill account. As part of the transition to an annual \$950 million capped car tax reimbursement program, the General Assembly provided supplemental funds of \$55.0 million to reimburse localities for tax year 2005 and earlier delinquent bills that were filed by September 1, 2006. However, \$14.8 million of that amount was not needed.

Negative balance adjustments result from set-asides for sum sufficient natural disaster allocations and a deficit authorization for purchase of Virginia's share of bird flu pandemic anti-virals, as shown below:

Proposed Adjustments to Balances	
(\$ in millions)	
Comptroller's GF Balance at 6/30/2006	\$1,825.4
Less: Balance Anticipated in Chapter 3/10	<u>1,544.1</u>
FY 2006 Total Balance	\$281.3
Additions to balance:	
Reversion for payroll that was advanced to June	134.2
Reversion for balance in PPTRA delinquent account	14.8
Set-asides from balance:	
Natural Disaster match authorized through June 06	(19.7)
Natural Disaster match authorized since June 06	(18.2)
Re-appropriation of capital and operating balances	(268.9)
Deficit authorization for bird flu pandemic anti-virals	(9.6)
Contingent appropriation for security-Rt 31 corridor	(2.5)
Federal audit of Internal Service Funds	<u>(0.6)</u>

Estimated Revenues

The introduced budget includes an upward revision to the revenue forecast of \$534.0 million to recognize continued strength in collections from nonwithholding and corporate taxes, two of the most volatile revenue sources. The third volatile source, deed recording taxes, is revised downward due to a slowdown in the housing market.

Underlying economics for the two major revenue sources, income tax withholding and sales, remain virtually unchanged from last year's projection, resulting in minor adjustments to these sources. Growth in nonwithholding and corporate collections are expected to slow as the biennium unfolds, and deed recording taxes are projected to decline this year and then remain flat in fiscal year 2008.

Revised economic growth rates (adjusted to remove the one-time effect of ending the accelerated sales tax) are 5.4 percent in fiscal year 2007 and 4.0 percent in fiscal year 2008.

Changes in GF Revenue (December Forecast) (\$ in millions)		
	<u>FY 2007</u>	<u>FY 2008</u>
Income Tax Withholding	\$31.0	\$60.0
Income Tax Non-withholding	302.4	333.1
Tax Refunds	(14.9)	(52.1)
Corporate	113.8	14.5
Sales Tax	(65.5)	(61.8)
Wills, Suits, & Deeds	(33.6)	(110.1)
Insurance Premiums	(31.8)	(29.1)
Other Revenue	<u>30.7</u>	<u>47.4</u>
Total Changes	\$332.1	\$201.9

Minor adjustments included in "Other Revenue" above remove about \$11.3 million from the forecast to reflect a decline of \$2.3 million in expected prisoner phone revenues, a \$2.1 million downward revision in each year for debt collections to be made by the Office of the Attorney General, and a \$4.5 million shift in interest earnings from the general fund to the Rainy Day Fund.

Key economic assumptions underlying the revised forecast are (1) job growth of 1.7 percent in fiscal year 2007 and 1.8 percent in fiscal year 2008, and (2) wage and salary growth of

6.5 percent in fiscal year 2007 and 6.1 percent in fiscal year 2008. Virginia is expected to continue outperforming the nation on these measures during the biennium.

Economic Variables Assumed in Forecast (November Forecast) (Percent Growth Over Prior Year)			
	Actual <u>FY 06</u>	Forecast <u>FY 07</u> <u>FY 08</u>	
Virginia Employment	2.2	1.7	1.8
Virginia Wages & Salaries	6.8	6.5	6.1
Virginia Personal Income	6.1	6.6	6.2

Tax Policy Changes. Revenues forecast in the introduced budget assume the adoption of two proposed tax policy changes which will be submitted in separate legislation. Combined, the proposed changes would lower general fund revenues by \$12.3 million over the biennium. Proposed tax policy changes are shown below.

Proposed Tax Policy Changes (\$ in millions)	
Increase the income tax filing threshold from \$7,000 to \$12,000 for single and from \$14,000 to \$24,000 for married filers, effective January 1, 2008. (6-month impact).	(\$13.8)
Move fixed date conformity with federal tax law to December 31, 2006.	<u>1.5*</u>
Total Proposed Adjustments	(\$12.3)*
*Congressional action subsequent to the introduction of the budget on December 15, 2007 would reduce resources by \$2.7 million, resulting in total adjustments of (\$1.2) for conformity.	

- **Filing Threshold.** The 2004 General Assembly raised the filing threshold for single filers from \$5,000 to \$7,000 and for married filers from \$8,000 to \$14,000, effective January 1, 2005. The introduced budget assumes the filing threshold would be raised to \$12,000 for single filers and to \$24,000 for married filers effective January 1, 2008. Separate legislation will be introduced to effect this change.

Selective Deconformity. Since 2001, Virginia has operated under moving fixed-date conformity with federal tax law to allow for selective conformity with tax changes passed by Congress. The introduced budget assumes that proposed legislation will be approved, moving the conformity date to December 31, 2006.

Transfers/Deposits to General Fund

The introduced budget decreases proposed transfers/deposits to the general fund (including Lottery profits) by \$60.1 million, excluding \$157.3 million in Rainy Day Fund accounting adjustments which are offset by corresponding appropriation adjustments. (See explanation at end of section).

Lottery profits available to public education are reduced by \$41.4 million to reflect the expectation that the new North Carolina lottery will depress sales along the border between the two states.

The introduced budget authorizes DMV to retain \$13.1 million of VIPNet fees that have been deposited into the general fund since 2003. These funds would help defray costs related to Virginia’s compliance with the federal Real ID Act of 2005. Under Chapter 3, language in Part 3 transferred these amounts to the general fund.

The following table details transfer/deposit additions proposed in the introduced budget.

Additional Transfers/Deposits (\$ in millions)	
Lottery profits	(\$41.4)
Increase sales tax transfer to the Game Protection Fund to restore portion of previous cuts	(2.8)
Increased Court debt collections	3.7
Reduction of planned VITA savings	(3.6)
Indirect Cost Recovers - Office of the Attorney General	0.9
Allow DMV to keep portion of VIPNet Fees	(13.1)
Transfer ¼ Percent Sales Tax to K-12	(4.3)
Miscellaneous other	<u>0.5</u>
Total	(\$60.1)*
<p><i>*Note: Does not include \$157.3 million in Rainy Day Fund accounting adjustments for transfers that are offset by appropriation adjustments.</i></p>	

Rainy Day Fund

Proposed amendments recast the fiscal year 2008 Rainy Day Fund payment that is included in the adopted budget from a net amount (payment less refund back to general fund for amount over cap) to a gross payment, with the refund being entered as a revenue adjustment. In addition, amendments add a super deposit related to fiscal year 2006 activity, which is half of the regular mandatory payment.

However, since payments related to fiscal year 2006 already exceed the Constitutional cap, the super payment will be returned to the general fund through a revenue refund in fiscal year 2008. In total, appropriation and revenue Rainy Day Fund amendments are offsetting and do not affect the bottom line of the budget. Therefore, the transfer entry is omitted from the transfer total shown above.