

Resource Changes for FY 2010 (Caboose Bill)

The adopted budget includes a reduction of \$1.3 billion in general fund resources available for appropriation in the current biennium (below the amount assumed in Chapter 781 of the 2009 Acts of Assembly). This amount includes: (1) a reduction in balances available of \$122.8 million, (2) a net reduction in the general fund revenue forecast of \$1, 273.4 million, and (3) an addition in transfers of \$127.8 million. This reduction is partially offset by a withdrawal from the Revenue Stabilization Fund (RDF) of \$293.4 million, leaving a net reduction in general fund resources of \$975.0 million to be addressed in the adopted budget.

Combined resource and spending adjustments result in a balance of \$132.2 million to be carried forward into the next biennium, as a beginning balance in HB 30.

Reduction in General Fund Resources Available for Appropriation FY 2010 (\$ in millions)			
	<u>Chapter 781</u>	<u>Revised Amount</u>	<u>Difference</u>
Beginning Balance & Adjustments	\$622.5	\$499.7	(\$122.8)
Official Revenue Estimate	15,262.0	13,988.6	(1,273.4)
Transfers	<u>441.8</u>	<u>569.6</u>	<u>127.8</u>
GF Resources Available for Appropriation	\$16,326.3	\$15,057.9	(\$1,268.4)
Plus: Withdrawal from Rainy Day Fund			293.4
Net Change in Resources Available			(975.0)
HB 29 Carry Forward Balance			\$132.2

Changes in the Balance

HB 29, as adopted, contains a net reduction of \$122.8 million in the balance that is available to apply toward FY 2010 expenditures. Balance adjustments reflect a routine technical restatement of the Comptroller's year-end report and account for the disposition of FY 2009 unspent agency appropriations (carryforward balances).

Most agency balances already were anticipated in Chapter 781. However, HB 29 reflects an additional \$68.1 million of balances that were identified in the Governor's September 2009 Budget Reduction Plan, reallocates \$77.4 million of discretionary balances to agencies (\$23.5

million of which represents agency pledges toward budget reductions) and returns \$115.3 million of balances that are mandated through Appropriation Act language.

Adjustments to Balance (\$ in millions)	
	<u>FY 2010</u>
Comptroller's Unreserved GF Balance at 6/30/2009	\$161.0
Less: Balance Anticipated in Chapter 781	<u>138.6</u>
FY 2009 Remaining Balance	\$22.4
Changes to Balance:	
Add FY 10 payroll reserve	86.5
Natural Disaster match authorized	(14.6)
Reappropriation of mandatory operating balances	(115.3)
Reappropriation of discretionary operating balances	(77.4)
Reappropriation of central account capital outlay	(10.3)
Reappropriation of capital outlay planning fund	(12.1)
Revert capital project/capital reserve funds	2.5
Unfilled judgeships	0.8
Miscellaneous technical	<u>(5.3)</u>
Total	(\$122.8)

Changes in Revenue

FY 2009 ended with a general fund revenue shortfall of \$298.8 million. The largest component of the shortfall was \$162.4 million from a 17.1 percent increase in individual income tax refunds, indicating an overpayment of estimated income taxes throughout the year as the economy deteriorated.

The ripple effect of this reduction in the revenue base, along with continuing deterioration in employment and stagnant wage growth, resulted in a \$1.5 billion revenue reduction through the combined August 2009 interim reforecast and subsequent December adjustments. Revenues are projected to decline by 4.3 percent on an "economic" basis (excludes impact of one-time tax amnesty and sales tax remittance revenue collections), following a 7.9 percent "economic" decline in FY 2009.

Chapter 781 revenues reflected action taken by the 2009 General Assembly to permanently change the sales tax remittance schedule for large retailers. The adopted budget

repeals the 2009 action and replaces it with a sales tax acceleration. By accelerating the sales tax collection in June 2009 for merchants with \$1.0 million or more of annual sales, using the same process employed in the 2001 recession whereby merchants remit 90 percent of their prior June sales tax liability early, an additional \$144.0 million would be generated. In total, \$227.7 million in one-time revenue gains would be generated by the accelerated collection, with \$83.7 million already reflected in Chapter 781. Language in HB 30 states the intent that the acceleration be phased out over time, starting in FY 2013.

Chapter 781 assumed net GF collections from the Tax Amnesty program authorized by the 2009 General Assembly of \$38.0 million. The adopted budget includes an additional \$64.1 million, for total Amnesty collections of \$102.1 million. HB 29 also increases revenue by \$17.7 million to reflect the retention by the general fund of interest earned on all NGF accounts where the diversion is not precluded by the Constitution or federal law. (Chapter 781 already retains \$12.0 million of NGF interest in FY 2010).

Finally, the adopted budget advances the date for conformity with federal tax law to January 22, 2010, with the exclusion of the federal cancellation of debt (COD) and high yield interest provisions which would have reduced FY 2010 revenue by \$99.4 million. Language in the adopted budget gives companies the option of recognizing COD income in equal amounts over fiscal years 2010, 2011, and 2012. Remaining federal tax law changes reduce revenue by \$15.0 million, with major provisions being a temporary increase in the earned income tax credit and a sales tax deduction for purchase of new cars, light trucks, motorcycles and motor homes. Finally, donations for Haiti relief are allowed to be claimed on 2009 tax returns.

Adjustments to Revenue	
(\$ in millions)	
	<u>FY 2010</u>
August Interim Forecast	(\$1,182.6)
December "economic" adjustments	(340.0)
2010 Session adjustments	86.1
Accelerate sales tax collections in June, 2010	144.0
Additional funds from Tax Amnesty	64.1
Divert interest on NGF accounts	17.7
Sale of surplus property and helicopter	6.6
Revised estimate of Clerk's excess fees	1.6
Advance federal tax conformity date to 1/22/10	(15.0)
Fed Conformity - COD income cash flow	(49.0)
Federal military spouse legislation (pre-emption)	(14.9)
Dominion Power Rebate	7.1
Miscellaneous other	(0.9)
Total	(\$1,273.4)

Changes in GF Revenue by Source (\$ in millions)	
	<u>FY 2010</u>
Gross Individual Income Tax	(\$ 853.7)
Refunds	(220.0)
Corporate	(0.4)
Sales Tax	(114.4)
Other Revenue	<u>(84.9)</u>
Total Changes	(\$1,273.4)

After accounting for both “economic” revenue changes and policy adjustments, GF revenues are projected to decline by 2.3 percent in FY 2010.

Changes in Transfers

HB 29, as adopted, includes additional transfers of \$127.8 million, most of which were identified in the Governor's September 2009 Budget Reduction Plan.

Changes in Transfers (\$ in millions)	
	<u>FY 2010</u>
Suspend 4 th qtr VRS employer contribution (NGF)	\$ 28.6
Delay VRS employee contribution until July (NGF)	12.7
NGF operating balances targeted in September plan	21.3
Dept. of Aviation balances	2.0
DEQ - WQIF balance	3.6
DCR - WQIF balance	6.2
Replace Fire Programs Fund balance with credit line	26.0
Replace Court Tech. Fund balance with credit line	9.0
NGF cash balances identified in September plan	14.5
Drug Assessment and Treatment Fund	2.0
Withdraw DMV Uninsured Motorist funds for Real ID	3.2

Changes in Transfers *(cont'd)*
(\$ in millions)

	<u>FY 2010</u>
DMV Real ID balance	5.2
Increase Trauma Center Fund transfer	1.0
1-day employee furlough (NGF)	9.3
e-VA savings	2.8
VITA operating efficiencies	0.5
Fed conformity sales tax deduction repaid from TTF	6.2
ABC 2 percent mark-up (Effective February 2010)	1.7
Miscellaneous other	2.5
Technical adjustments:	
¼ percent sales tax to K-12 (lower growth)	(24.0)
ABC profits forecast update	3.5
Sales tax transfer to Game Fund (lower growth)	2.0
Sales tax compliance recovery (lower growth)	(0.9)
Reverse Tobacco Settlement Fund transfer/ARRA use	(7.3)
Reverse duplicate NGF transfer	(2.7)
Reverse NGF transfer-Governor's veto	<u>(1.1)</u>
Total Changes	\$127.8

Nongeneral Fund Fee

The adopted budget increases the current \$10.00 GF fee on deeds recorded to \$20.00, with the additional \$10.00 being deposited in the NGF Virginia Natural Resources Commitment Fund for the agricultural best management practices cost sharing program. The language authorizing this fee is included in Part 4 of the budget.

HB 30 Resources

The adopted 2010-12 budget includes \$31.4 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation (2010-12 biennium, \$ in millions)	
Beginning Balance	\$132.2
Adjustments to the Balance	523.1
Official GF Revenue Estimate	29,886.6
Transfers	859.1
GF Resources Available for Appropriation	\$31,401.0

Available Balance

The adopted budget includes \$132.2 million as a projected unspent balance at the end of the 2008-10 biennium. Major balance adjustments relate to savings from VRS rates paid for state-funded employees, conversion of the Retiree Health Care Credit to pay-as-you-go, and premium holidays for the group life insurance and sickness and disability programs (details on these changes are contained in Central Accounts).

Balance Adjustments in HB 30 (2010-12 biennium, \$ in millions)	
Intergovernmental Cash Management Act	(\$1.0)
2009 Special Session Relief Bill	(0.5)
Judicial balances	4.6
Judicial turnover/vacancy; freeze judicial openings	10.5
Legislative agency balances	5.4
VRS "Normal" cost plus partial accrued liability	333.2
HB 1189 new employee retirement savings	6.3
Group Life Premium Holiday	53.0
Sickness and Disability Program Premium Holiday	41.6
Retiree Health Care Credit (pay as you go)	70.0
Total	\$523.1

GF Revenue Estimate

The HB 30 revenue estimate reflects the ripple effect of the FY 2010 \$1.4 billion reduction in the revenue base, along with anticipated “economic” growth of about 5.4 percent in FY 2011 and 5.2 percent in FY 2012 (economic growth rate adjusts for one-time tax amnesty and sales tax acceleration revenue in the FY 2010 base).

Projected “economic-based” revenues of \$14,447.1 million in the first year and \$15,192.1 million in the second year are roughly \$1.9 billion per year below the amount anticipated in December 2008, but would exceed projected FY 2010 “economic-based” collections by roughly \$743.0 million in FY 2011 and \$1.5 billion in FY 2012.

Growth rates are based on the Global Insight Standard forecast which assumes that employment will bottom out in the first half of calendar year 2010 and the recovery will be a prolonged U-shaped recovery rather than a V-shaped recovery due to lackluster consumer demand.

Economic Variables Assumed In Forecast				
Percent Growth Over Prior Year				
(December Forecast)				
	<u>FY 2011</u>		<u>FY 2012</u>	
	<u>VA</u>	<u>National</u>	<u>VA</u>	<u>National</u>
Employment	1.1%	1.0%	2.1%	2.3%
Personal Income	3.0%	3.8%	3.7%	4.6%
Avg Wages & Salaries	1.9%	2.5%	1.6%	2.0%
Wages & Salaries	3.0%	3.5%	3.7%	4.4%

HB 30 includes miscellaneous revenue adjustments that add \$29.3 million. Policy adjustments add another \$110.2 million in the first year and \$107.7 million in the second year. All adjustments are detailed in the table below.

The combined total for “economic-based” revenue, policy adjustments and miscellaneous adjustments is \$29.9 billion in biennial revenues as follows:

**Forecast of General Fund Revenues
Projected Growth**

(2010-12 biennium, \$ in millions)

	<u>FY 2011</u>	<u>% Growth</u>	<u>FY 2012</u>	<u>% Growth</u>
Net Individual	\$9,607.7	7.2%	\$10,146.4	5.6%
Corporate	772.9	6.8%	828.5	7.2%
Sales	2,880.8	(5.3)%	2,974.2	3.2%
Insurance	274.4	13.2%	291.4	6.2%
Recordation	314.0	5.0%	314.0	0.0%
All Other	<u>733.7</u>	1.9%	<u>748.6</u>	2.0%
Total Revenues	\$14,583.5	4.3%	\$15,303.1	4.9%

**Miscellaneous and Tax Policy Adjustments in
HB 30, as Adopted**

(2010-12 biennium, \$ in millions)

Eliminate sales tax dealer discount for electronic filers	\$98.2
Federal domestic production income subtraction (6% both years)	20.0
Fed Conformity - Cancellation of Debt Income cash flow	49.0
2/3rds of Clerk's "excess" fees: Increment from revised est.	6.1
Direct deposit of District Court fees	8.8
SB 329 Court Fee increases (GF)	20.0
Brunswick prison property sale	20.0
Property sale - Hampton VSDB	2.5
Retain interest on NGF accounts (\$24.0 million is in base forecast)	47.6
Federal military spouse legislation (pre-emption)	(19.8)
Major Business Facility Job Tax Credit (lower threshold)	(2.6)
Motion Picture Tax Credit	(2.5)
Increase refund of Retaliatory Tax Credit	(0.8)
Increase certain criminal penalty fees	1.3
Miscellaneous other	<u>(0.6)</u>
Total	\$247.2

The adopted budget eliminates the sales tax dealer discount for larger retailers that are required to file returns electronically. Smaller retailers would continue to be allowed a discount ranging from 0.8 percent to 1.6 percent, depending on monthly sales volume. Language expresses the intent that the elimination of the dealer discount is temporary in nature.

The date for conformity with federal tax law was advanced to January 22, 2010, in HB 29, with the exclusion of the federal cancellation of debt (COD) and high yield interest provisions which would have reduced FY 2010 revenue by \$99.4 million. Language in the adopted budget gives companies the option of recognizing COD income in equal amounts over fiscal years 2010, 2011, and 2012. Federal provisions under the American Recovery and Reinvestment Act to provide a temporary increase in the earned income tax credit and deduction of sales tax on new vehicle purchases would be allowed to flow through to Virginia tax returns for tax year 2009 but would be discontinued in tax year 2010. Finally, a domestic production income subtraction would be continued in tax year 2010 and tax year 2011 at the current level of six percent.

Transfers

Transfers to the general fund increase available resources by \$859.1 million. The largest transfer is \$424.7 million from the Local Real Estate/SOQ Fund for public education to reflect the 1/4 percent sales tax enacted in 2004. Other customary transfers include ABC profits of \$95.5 million for the biennium, reflecting increased operating revenues from up to twenty new stores and \$8.0 million from an anticipated 2 percent increase in the ABC mark-up. An additional \$130.8 million of ABC profits and \$19.8 million of wine tax profits are dedicated to DBHDS substance abuse programs.

Transfers in HB 30 (2010-12 biennium, \$ in millions)	
1/4 cent Sales Tax - Local Real Estate/SOQ Fund	\$424.7
ABC/Wine to Dept. MHMRSAS for Substance Abuse	150.6
ABC Profits (\$8.0 million from 2 percent increase in mark-up)	95.5
ABC operating efficiencies	3.2
ABC contribution to state overhead costs	1.6
Un-refunded Marine Fuels Tax	14.8
Sales Tax Compliance and NGF indirect costs	27.4
Increased interest earnings on NGF accounts	33.9
Uninsured Motorists Funds (including Real ID pull-back)	14.8
Court Debt Collections	9.2
VITA operating efficiencies	2.0
IDEA Fund	13.0
Trauma Center Fund	4.9

Transfers in HB 30 *(cont'd)*
(2010-12 biennium, \$ in millions)

Balance from \$50 increase in Driver's License Reinstatement Fee (after reimbursing Trauma Center Fund)	\$13.2
Balance from \$2 increase in Vehicle Registration Fee (after funding Med Flight operations)	21.0
Balance from \$10 increase in Internet Crime Against Children convictions (after funding specified prevention programs)	5.4
State Insurance Reserve Fund balance	4.4
State Corporation Commission unobligated balances	20.0
Land Preservation Credit Management fees	1.2
Reversion of Planning Projects Fund balance	4.6
Transfer Sales Tax to Game Protection Fund	(27.2)
Transfer to Children's Health Program	(28.2)
NGF cash balances identified in agency savings plans	12.9
NGF savings from reduced Deferred Compensation match in 1 st yr	3.5
Savings from using lowered VRS/VSDP/health care credit rates	8.6
Savings from new hire contribution of 5% to VRS/ORP	12.5
Miscellaneous Other	<u>11.5</u>
Total	\$859.1

Nongeneral Fund Fees

HB 30 includes NGF fee increases as shown below:

NGF Fees in HB 30 (2010-12 biennium, \$ in millions)	
\$10.00 increase in Deed Recording Fee (enacted in HB 29) Deposited to Natural Resources Commitment Fund used for Agricultural best management practices	\$9.1/FY 11 \$9.1/FY 12
\$50.00 increase in Driver's License Reinstatement Fee, used to restore Trauma Center Fund; balance deposited to GF.	\$9.0/FY 11 \$9.0/FY 12
\$2.00 increase in Vehicle Registration Fee dedicated to Special Emergency Medical Services Fund used to fund State Police Med Flight operations; balance deposited to GF.	\$12.6/FY 11 \$12.6/FY 12
\$10.00 increase in Internet Crimes Against Children convictions, used to fund specified prevention programs; balance deposited to GF	\$4.5/FY 11 \$4.5/FY 12
\$1.00 per mile-per-hour increase in speeding fine	\$3.6/FY 11 \$3.6/FY 12
Variable fee increases for Restaurant, hotel, campground permits and plan review/well and sewer fees	\$3.8/FY 11 \$3.8/FY 12
DEQ permit fee increases to partially cover direct permit costs	\$2.5/FY 11 \$2.5/FY 12
Agricultural food inspection fees for direct costs	\$0.5/FY 11 \$0.5/FY 12
Labor & Industry Apprenticeship Program fee for direct costs	\$0.3/FY 11 \$0.3/FY 12
Mines/Minerals Gas & Oil Well Permit/Mine Safety Fees for direct costs	\$0.4/FY 11 \$0.4/FY 12