

Resources

The adopted 2016-18 budget includes \$40.7 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation (2016-18 biennium, \$ in millions)	
Beginning Balance	\$ 265.3
Adjustments to the Balance	680.4
Official GF Revenue Estimate	38,535.5
Transfers	<u>1,174.5</u>
GF Resources Available for Appropriation	\$40,655.8

Available Balance

The budget, as adopted, includes a projected beginning balance of \$265.3 million at the close of the 2014-16 biennium. This beginning balance results from the FY 2016 revenue forecast adjustment, offset by additional spending included in Chapter 732 of the 2016 Acts of Assembly (HB 29).

The \$680.5 million adjustment to the balance reflects the appropriation of balances from the FY 2015 revenue surplus set aside for the Constitutionally-required deposit to the Rainy Day Fund of \$605.6 million, which is appropriated to the Fund in FY 2017. Balance adjustments also include \$55.0 million for the "Part A" deposit to the Water Quality Improvement Fund (WQIF) generated by the FY 2015 revenue surplus, and \$6.7 million for the "Part B" deposit, generated by unexpended appropriations at the end of FY 2015. Both amounts are appropriated in FY 2017. In addition, \$11.1 million is added in adjustments to the balance to account for the increase in general fund balance that resulting from the delayed sale of the Alexandria ABC building, and \$3.0 million is added to reflect increased balances resulting from surplus debt service funding in FY 2016.

Economic Projections

The 2016-18 general fund revenue forecast assumes "economic" growth rates of 3 percent for FY 2017 and 3.7 percent for FY 2018. Embedded in this forecast is the continuation of the "modified collar" on nonwithholding tax collections employed in FY 2016, which reduces revenues by \$188.2 million in FY 2017 and \$194.3 million in FY 2018.

After tax policy changes and technical adjustments, estimated growth rates increase to 3.2 percent in the first year and 3.8 percent in the second year, resulting in projected collections of \$18,902.4 million in FY 2017 and \$19,633.1 million in FY 2018. The forecast assumes that growth will remain sluggish and Virginia will underperform the nation as the impact of federal budget actions continue to dampen the Virginia economy due to the large military presence and heavy reliance on federal procurement spending.

Economic Variables Assumed In Forecast				
Percent Growth Over Prior Year				
(December Forecast)				
	<u>FY 2017</u>		<u>FY 2018</u>	
	<u>VA</u>	<u>U.S.</u>	<u>VA</u>	<u>U.S.</u>
Employment	1.3%	1.5%	1.0%	1.3%
Personal Income	3.8%	4.9%	4.2%	5.4%
Wages & Salaries	4.3%	5.2%	4.0%	5.2%

Forecast of General Fund Revenues				
Projected Growth				
(2016-18 biennium, \$ in millions)				
	<u>FY 2017</u>	<u>% Growth</u>	<u>FY 2018</u>	<u>% Growth</u>
Net Individual	\$13,230.3	3.2%	\$13,836.0	4.5%
Corporate	765.0	5.8%	736.3	(3.7%)
Sales	3,500.8	4.0%	3,635.0	3.8%
Insurance	335.6	4.0%	350.3	4.4%
Recordation	389.4	1.7%	389.4	0.0%
All Other	<u>681.4</u>	(1.2%)	<u>686.1</u>	0.7%
Total Revenues	\$18,902.4	3.2%	\$19,633.1	3.8%

Tax Policy Changes Assumed in Revenue Forecast

A total of \$81.7 million is removed from the biennial revenue forecast based on tax policy changes, as shown below.

Tax Policy Changes	FY 2017	FY 2018	Biennial
Accelerated Sales Tax – Remove Additional Merchants from Requirement	(\$36.7)	(\$27.0)	(\$63.7)
Establish New R&D Credit for Firms with Research Expenses Over \$5.0 Million (HB 884/SB 58)	0.0	(20.0)	(20.0)
Increase Existing R&D Tax Credit	0.0	(1.0)	(1.0)
ABLE Accounts Tax Deduction	(0.2)	(0.5)	(0.7)
Food Bank Tax Credit (HB 1093/ SB 580)	(0.2)	(0.3)	(0.5)
Federal Tax Conformity (HB 402/ SB 545)	(0.2)	(0.1)	(0.3)
Disallowed Interest on Certain Sales and Use Tax Refunds (HB 398/ SB 444)	1.9	1.9	3.8
Repeal Income Tax Credit for Contributions to Political Candidates (HB 22/ SB 115)	<u>0.0</u>	<u>0.7</u>	<u>0.7</u>
Total Tax Policy Changes	(\$35.4)	(\$46.3)	(\$81.7)

The adjustments to accelerated sales tax collection raises the annual sales threshold for those required to participate from the current threshold of \$2.5 million to \$10.0 million in FY 2017 and to \$25.0 million in FY 2018. This adjustment eliminates the requirement for more than 90 percent of the dealers, and only the 482 largest retailers will be required to participate by FY 2018. The revenue loss in each year is one-time in nature, reflecting the shifting of tax revenues from June of a given fiscal year into July of the next year.

The revenue forecast also reflects the impact of legislation relating to research and development tax credits. Chapters 661 and 300 of the 2016 Acts of Assembly (HB 884/SB 58) increase the cap on the existing R & D tax credit by \$1.0 million beginning in tax year 2016, bringing the total credit available to \$7.0 million per year. The same legislation establishes a new R & D tax credit available to larger firms with research expenditures exceeding \$5.0 million annually. This credit is capped at \$20.0 million a year, beginning in tax year 2016.

A new tax deduction for taxpayers who make contributions to ABLE accounts reduces anticipated revenues by \$700,000 over the biennium, and a new tax credit for food crop donations to nonprofit food banks, capped at \$250,000 annually, is expected to reduce revenues by \$500,000 over the two-year period. This credit applies to both corporate and personal income taxes and is available to persons engaged in the business of farming.

Chapters 2 and 19 of the 2016 Acts of Assembly (HB 402/ SB 545) advance Virginia's date of conformity to the Internal Revenue Code to December 31, 2015. This legislation conforms Virginia to federal tax provisions related to the deductibility of depreciable business assets and certain other deductible expenses which results in a negative revenue impact to Virginia, while a provision limiting the use of Real Estate Investment Trusts as a tax avoidance strategy increases revenues, offsetting much of the revenue loss. The result is a net reduction of \$300,000 in general fund revenues over the biennium.

Chapters 484 and 303 of the 2016 Acts of Assembly (HB 398/ SB 444) prohibit taxpayers from receiving interest on sales tax refund claims when an exemption certificate was not presented to the dealer at the time of sale. The legislation results in an anticipated general fund revenue gain of \$1.9 million each year. Repealing the tax credit for contributions to political candidates also increases projected revenues by \$670,000 in FY 2018.

Non-Tax Policy and Technical Revisions Impacting the Revenue Forecast

Other policy changes impacting the projected revenue forecast result in a net reduction of \$18.4 million over the biennium. The largest adjustment results from unwinding the retention of nongeneral fund interest earnings in the general fund, resulting in a GF reduction of \$11.1 million each year. Also, the elimination of profits to the general fund from prison phone charges reduces revenues by \$2.6 million each year. A technical adjustment to a partnership between the Department of Taxation and the Internal Revenue Service results in a forecast reduction of \$1.1 million over the biennium. At the Department of Taxation, enhanced refund review is anticipated to reduce refund fraud by \$8.4 million over the biennium, and enhanced review of sales tax collections on tobacco products is expected to generate \$1.9 million in additional collections.

Transfers

Planned transfers to the general fund increase total available resources by \$1,174.5 million over the biennium. Of this amount, \$783.7 million represents the 0.375 percent sales tax that is transferred from the Local Real Estate/SOQ Fund for public education.

Other customary transfers include ABC profits of \$172.7 million for the biennium, with an additional \$130.8 million of ABC profits and \$18.3 million of spirit taxes going to the Department of Behavioral Health and Developmental Services (DBHDS) for substance abuse programs. An additional \$1.5 million in GF revenue over the biennium from ABC profits is projected to result from opening on New Year's Day and opening one hour earlier on Sundays.

Chapter 780 of the 2016 Acts of Assembly (HB 30) increases the amounts directed to the Game Protection Fund by \$7.7 million each year with \$2.7 million annually attributable to the watercraft sales and use tax, and \$5.0 million from the portion of the general sales tax dedicated to the Fund by Code, resulting in transfer reductions in a like amount. Total amounts

transferred from the general fund to the Game Protection Fund thus increase to \$35.4 million over the biennium.

Chapter 780 also reflects reduced transfers from the Trauma Center Fund and \$4 for Life transfer by \$3.0 million each, in both years of the biennium, to begin phase-out the use of those funds to support general fund activities employed to address prior budgetary shortfalls.

Other transfers include \$9.1 million over the biennium based on a recalculation by the Department of Accounts of the amounts of central service agency expenses to be recovered from nongeneral fund agencies, and \$1.6 million in nongeneral fund savings to be realized by the Department of Motor Vehicles from the reduction in the VRS contribution rates during the 2016-18 biennium as a result of the expedited repayment of the 2010-12 biennium deferred contributions authorized in FY 2016. The remaining transfer actions are customary transfers that have not been adjusted beyond technical updates compared to the amounts transferred in Chapter 665 of the 2015 Acts of Assembly.

Transfers in Chapter 780 (HB 30, as Adopted)	
0.375 percent Sales Tax - Public Education	\$783.7
ABC/Wine to DBHDS for Substance Abuse	149.0
ABC Profits	172.7
Children's Health Insurance Program	(28.1)
Watercraft Sales and Use Tax	(9.4)
Transfer Sales Tax to Game Protection Fund	(26.0)
Reduce Transfer of \$4 for Life to GF	15.0
Reduce Trauma Center Fund Transfer to GF	12.1
Unrefunded Marine Fuels	14.8
Local and Transportation Sales Tax Compliance	16.6
NGF Indirect Costs	16.1
Court Debt Collections	10.2
Uninsured Motorists Fees	14.8
IDEA Fund Transfer	13.0
Cost Recovery - Central Service Agencies	9.1
ABC Operational Efficiencies	4.9
Transfer VRS NGF Savings from DMV	1.6
ABC New Year's Day and Earlier Hours on Sunday	1.5
Land Preservation Fund Transfer	1.2
Miscellaneous Other	<u>1.7</u>
Total	\$1,174.5