



# Briefing on HB 5010, Proposed Amendments to Chapter 2

House Appropriations Committee

September 16, 2014



# Chapter 2 Revenue Assumptions

- Chapter 2 (FY 2014-16 biennial budget) attempted to address the budget shortfall *known at that time*
- It was predicated on a three-year shortfall of \$1.55 billion, compared to the Official Mid-Session reforecast
  - FY 2014 - \$350.0 million
  - FY 2015 - \$600.0 million
  - FY 2016 - \$600.0 million
- Most of the assumed shortfall was based on lower estimated/final payments in FY 2014. The lower revenue base was carried through to FY 2015 and FY 2016, resulting in an anticipated shortfall of \$500.0 million each fiscal year
- An additional annual adjustment of \$100.0 million was included to reflect softness in payroll withholding
- Because the Caboose Budget (Chapter 1) had already been adopted, the entire 3-year estimated shortfall was programmed into Chapter 2
  - The adopted budget included a reserve of \$842.5 million and anticipated withdrawal of \$707.5 million from the Rainy Day Fund to close the gap *known at that time*

# Revenues Declined More Than Anticipated After Passage of Chapter 2

- FY 2014 revenues and transfers finished \$437.8 million below the forecast, triggering the reforecasting process
  - The major tax sources - Corporate, Withholding, Nonwithholding, Sales and Recordation Taxes – were down \$559.1 million
  - This was offset by \$120.6 million in better than anticipated performance of refunds, insurance premium taxes, interest earnings, and other minor sources (ABC/Beer)
- Chapter 2 assumed a carry-forward balance from FY 2014 of \$128.6 million
- Based on the preliminary close, that balance is \$40.1 million, or \$88.5 million less
- Adjustments in HB 5010 will address this gap as well as the forecast adjustments for FY 2015 and FY 2016

# Revised Economic Outlook for 2014-16

- Based on the FY 2014 shortfall, the Governor called for an official reforecast of revenues for the upcoming biennium
- The general fund revenue reforecast for FY 2014-16 is driven by two items:
  - The impact of the FY 2014 shortfall on the FY 2015 revenue base
  - The expectation that Virginia will continue to underperform the Nation
- Continued sluggish job and wage and salary growth
  - Particularly in Northern Virginia, which typically accounts for half of the state's job growth and pays amongst the highest salaries
- Revised employment outlook for Virginia in 2015 is 0.7%, half the expected growth rate assumed in the November 2013 forecast
  - The revised job outlook for Northern Virginia is 0.6%, a drop of 1%
  - The revised job outlook for Hampton Roads is 0.9%, versus 2.1% last November
  - The revised job outlook for Richmond is anticipated to be 1.4%, a drop of 0.5%

# Revised FY 2014-16 Official Forecast

- Governor McAuliffe presented the revised revenue forecast to the Joint Money Committees on August 15<sup>th</sup>, based on the recommendations of JABE and GACRE
- The forecast is significantly lower than was anticipated in Chapter 2, and assumes the following:
  - Total general fund revenue growth of 2.7% in FY 2015 (reduced from 5.2% in Chapter 2)
  - Total general fund revenue growth of 2.7% in FY 2016 (reduced from 4.1% in Chapter 2)
- When the FY 2014 additional shortfall is factored in, the anticipated biennial deficit is expected to be \$881.5 million more than predicated in Chapter 2

## Interim General Fund Revenue Forecast for FY 2014-16 Biennium

(\$ in Millions)

Source	FY 2015		FY 2015 Forecast		FY 2016		FY 2016 Forecast	
	% Growth Ch. 2 Forecast	% Growth Interim Forecast	Chapter 2 Forecast	August Interim Forecast	% Growth Ch. 2 Forecast	% Growth Interim Forecast	Chapter 2 Forecast	August Interim Forecast
Withholding	4.5%	2.7%	\$11,025.6	\$10,770.3	4.3%	3.1%	\$11,504.6	\$11,100.5
Nonwithholding	9.7%	6.3%	3,209.3	2,685.2	6.0%	2.3%	3,401.6	2,747.3
Refunds	4.3%	3.6%	(1,885.0)	(1,819.0)	4.2%	3.6%	(1,965.0)	(1,884.5)
Sales	4.3%	2.8%	3,211.4	3,152.5	2.9%	3.6%	3,303.5	3,265.5
Corporate	6.1%	-2.5%	816.6	738.9	1.4%	0.7%	827.7	744.2
Recordation	0.0%	1.2%	377.5	314.5	0.0%	0.0%	377.5	314.5
Insurance	0.5%	7.5%	290.9	344.4	4.2%	-4.1%	303.1	330.2
All Other	1.7%	-3.9%	675.6	675.6	3.0%	3.0%	695.6	695.6
<b>Total GF Revenue</b>	<b>5.2%</b>	<b>2.7%</b>	<b>\$17,721.9</b>	<b>\$16,862.4</b>	<b>4.1%</b>	<b>2.7%</b>	<b>\$18,448.6</b>	<b>\$17,313.3</b>
<b>Shortfall Compared to Current Forecast</b>				<b>(\$859.5)</b>		<b>(\$1,135.3)</b>		

Note: Chapter 2 addressed \$600.0 million each year in anticipation of the reforecast. The net additional shortfall (including FY 2014) totals \$881.5 million

# Net Effect of Revenue Shortfall and Interim Reforecast for FY 2014-16 Biennial Budget

	FY 2015	FY 2016	Total
Chapter 2 Revenue Estimates	\$17,721.9	\$18,448.6	\$36,170.5
Interim Revenue Reforecast	16,862.4	17,313.3	34,175.7
Difference	(859.5)	(1,135.3)	(1,994.8)
FY 2014 Revenue Shortfall	(437.8)		(437.8)
Total Shortfall	(\$1,297.3)	(\$1,135.3)	(\$2,432.6)
Ch. 2 Appropriated Reserves	481.8	364.3	846.1
Anticipated Rainy Day Fund Withdrawal	470.0	235.0	705.0
Remaining Shortfall Addressed in HB 5010	(\$345.5)	(\$536.0)	(\$881.5)

# Purpose of Addressing Shortfall Now

- Following the FY 2014 year-end close it became apparent that substantial adjustments to Chapter 2 would be required
- The Chairmen of the House Appropriations and Senate Finance Committees met to discuss whether legislative action was warranted
- The General Assembly is still in Session and already had planned to reconvene on September 18<sup>th</sup>
  - This was not the case in 2009 when Governor Kaine had to develop budget cut plans
- The Chairmen then met with the Secretary of Finance to discuss working together to fashion a template for legislative action
- Bipartisan leadership of both the House and the Senate met with the Governor and agreed upon the principles guiding introduction of legislation in the House and Senate



# Benefits of Addressing Shortfall Now

- Because we already are 3 months into fiscal year 2015, addressing the shortfall now will provide more time to implement reduction plans
- Also provides surety to stakeholders (state agencies, higher education institutions, local governments) about funding levels
- Sends a clear signal to Wall Street and the business community that Virginia is working in a bi-partisan fashion to address its budget shortfall

# Overview of HB 5010

- What does HB 5010 do?
- It amends and reenacts Chapter 2
  - With the exception of the new sections outlined below, all other provisions of Chapter 2 are unchanged
  - When the Governor introduces his proposed amendments in December, actions taken in HB 5010 already will be reflected
- HB 5010 updates the revenues assumed in the budget to reflect the downward revisions to the general fund forecast
- Appropriates \$470.0 million in FY 2015 and \$235.0 million in FY 2016 from the Rainy Day Fund
- Takes action to close the *remaining* budget shortfall of \$345.5 million in FY 2015 and \$536.0 million in FY 2016 through the establishment of four reversion accounts

# How Does the Bill Close The Shortfall?

(GF \$ in millions)	FY 2015	FY 2016
Front Page Resource Adjustments (balances, reversions, transfers, etc. – language reflected in the Miscellaneous Reversion Clearing Account)	\$149.1	\$65.1
State Agency Reversion Account	92.4	100.0
Higher Education Reversion Account	45.0	45.0
Aid to Local Government Reversion Account	30.0	30.0
Miscellaneous Reversion Clearing Account	40.6	284.9
<b>TOTAL</b>	<b>\$357.1</b>	<b>\$525.0</b>

Note: Yearly savings amounts differ from shortfall amounts detailed on previous page. FY 2015 balances will be used to offset FY 2016 shortfall.

# Components of HB 5010

- Amends the “front page” of Chapter 2 to reflect the revised revenue forecast, use of Rainy Day Fund, and transfer and balance adjustments
- Adds 4 new items to Central Appropriations for the new reversion accounts
- Item 471.10 contains state agency reductions of \$92.4 million in FY 2015 and \$100.0 million in FY 2016 – approximately 4% each year
  - This total is not agency-specific and the Governor is given latitude to achieve the necessary savings within the confines of the agency plans, subject to the provisions of Chapter 2
    - This language provides limitations on how much the Governor can reduce spending in any one agency or program to 15% or less and prohibits any reduction to retirement system contributions
  - Governor requested each agency to plan for a 5% reduction in FY 2015 and 7% reductions in FY 2016
  - Plans are due to the Governor on September 19

# Components of HB 5010

- Item 471.20 contains higher education reductions of \$45.0 million each year
  - Reductions taken against the E & G programs only
    - Exempts research, financial aid, Cooperative Extension and VIMS
  - Not an across-the-board reduction against the GF
  - Target reflects each institution's in-state/out-of-state mix and revenue capacity
  - Consistent with the Governor's guidance, it is the intent of the General Assembly that institutions achieve savings through productivity and operating efficiencies and not through any mid-year revenue adjustments
- HB 5010 also repeals Paragraph K. of Item 468, which set aside \$20.0 million for higher education
  - These amounts were not allocated to any particular institution in Chapter 2 but were designed to be an additional reserve in the event revenues declined further

# Reductions to Public Colleges and Universities

<b><u>Institution</u></b>	<b><u>Annual Reduction</u></b>
Christopher Newport University	\$601,975
College of William & Mary	\$2,338,873
George Mason University	\$4,705,571
James Madison University	\$3,113,308
Longwood University	\$542,707
Norfolk State University	\$550,089
Old Dominion University	\$2,230,669
Radford University	\$1,113,249
University of Mary Washington	\$635,447
University of Virginia	\$8,160,065
University of Virginia at Wise	\$126,330
Va. Commonwealth University	\$5,377,759
Virginia Military Institute	\$441,825
Virginia State University	\$637,174
Virginia Tech	\$6,133,525
Richard Bland College	\$64,754
Virginia Community College Sys.	\$8,226,680
<b>Total</b>	<b>\$45,000,000</b>

Note: Financial Aid, Research (Pgm 110), VT Extension, VSU Extension and VIMS are exempt from reductions.

# Components of HB 5010

- Item 471.30 contains savings from state aid to local governments of \$30.0 million each year
  - Overall, aid to localities makes up almost half of the budget
  - Consistent with strategies utilized by Governors Kaine and McDonnell, localities will be given the flexibility to identify which programs to reduce to achieve the target
  - Targets will be established by the Department of Planning and Budget and will be distributed among localities on a pro rata share of total local aid received
    - Governors Kaine and McDonnell excluded funding for K-12 and car tax reimbursements from the calculation and from the local aid categories that may be reduced
    - \$30.0 million equates to less than 0.3% of total local aid
  - This strategy was first used in the 2008-10 biennium and continued through FY 2013
    - Reductions totaled \$60.0 million in FY 2011 and were eliminated by the General Assembly in FY 2014

# Components of HB 5010

- The last reversion clearing account – Miscellaneous (Item 471.40) contains net spending adjustments of \$40.6 million in FY 2015 and \$284.9 million in FY 2016 from a series of balance reversions, transfers and other actions
- Largest component is the authorization of transfers from the Rainy Day Fund totaling \$705.0 million over the biennium (Paragraph E)
- Paragraph A.1. through A.7. direct the following transfers and reversions:

	<u>FY 2015</u>	<u>FY 2016</u>
Miscellaneous Executive Balances/Transfers	102.8	1.0
Legislative Branch Balances	4.9	-
Judicial Branch Savings	0.7	-
K-12: GF Offset for Add'l Lottery and Literary Fund	43.1	-
Debt Service Savings from Refinancings	3.2	23.0



# Components of HB 5010

- Item 471.40, A.8. includes language freezing the additional transfer of existing general fund sales tax revenues to transportation at the FY 2014 level for one year
  - This action defers the \$50.0 million incremental increase to transportation scheduled for FY 2015 until FY 2016
  - Does not impact the \$50.0 million transfer begun in FY 2014
- Item 471.40, D. appropriates an additional \$5.7 million in FY 2015 and \$10.1 million in FY 2016 to effectuate the filling of judgeships
  - Provides funding to fill 36 additional judgeships, effective December 1, 2014
  - Because of the delay in filling the judgeships, this action results in \$3.2 million of savings compared to Chapter 2

# Components of HB 5010

- Item 471.40, G. authorizes the Governor to reallocate up to \$5.0 million each year from economic development appropriations to other programs designed to enhance economic development efforts if such funds can be used to enhance job creation
  - This is limited to programs within the executive branch
  - Does not impact overall funding levels for these activities
  - Governor must submit notice of intent to General Assembly 5 days prior to any such action

# Components of HB 5010

- Lastly, Paragraph F of Item 471.40 directs the Governor to develop budget reduction plans and other strategies for submission to the 2015 General Assembly to address the remaining FY 2016 shortfall of \$272.0 million not otherwise addressed in HB 5010
  - These plans are to be developed consistent with the provisions of § 2.2-1509
  - Plans will take into account any further changes to the revenue assumptions that occur as part of the annual reforecasting process undertaken pursuant to § 2.2-1503, Code of Virginia

# Summary of Actions in HB 5010

- Actions included in HB 5010 will be incorporated into Chapter 2 as adopted in June
  - All other provisions remain in effect
- It fully addresses the known shortfall by legislatively establishing specific reduction targets for executive branch agencies, higher education institutions, and state aid to local governments, while preserving funding levels in FY 2015 for public education
- Requires the Governor to develop detailed budget reduction proposals to address the remaining shortfall of \$272.0 million in FY 2016. These plans will be submitted to the 2015 General Assembly for consideration