

Resource Changes for 2008-10

The revenue reforecasting process undertaken in the fall of 2008 and in mid-session resulted in a net forecast reduction of available GF revenues (including transfers) of \$3.7 billion. After taking into account technical adjustments to transfers (ABC profits, ¼ cent sales tax for education), various revenue adjustments and tax policy changes enacted to offset the shortfall, the revised biennial general fund revenue forecast is \$3.4 billion less than the amount assumed in Chapter 879 of the 2008 Acts of Assembly.

Actions taken to offset the revenue shortfall of \$3.7 billion include: (1) a \$490.0 million withdrawal from the Revenue Stabilization Fund (RDF), (2) tax policy adjustments totaling \$151.6 million GF, (3) \$243.3 million in additional transfers and miscellaneous revenue/balance actions (4) \$350 million in savings by replacing cash for capital projects with debt, and (5) approximately \$2.4 billion in across-the-board and targeted program reductions in the form of amendments to Chapter 879 of the 2008 Acts of Assembly (includes \$808.2 million in GF savings from net enhanced Federal Stimulus Medicaid match).

Reduction in General Fund Resources Available for Appropriation for 2008-10 (\$ in millions)			
	<u>Original Amount</u>	<u>Revised Amount</u>	<u>Difference</u>
June 30, 2008 Balance	\$312.8	\$1,091.9	\$779.1
Adjustments to the Balance	248.0	(469.3)	(717.3)
Official Revenue Estimates	33,280.0	29,875.9	(3,404.1)
Appropriation Act Transfers	<u>772.3</u>	<u>1,338.5</u>	<u>566.2</u>
GF Resources Available for Appropriation	\$34,613.1	\$31,837.0	(\$2,776.1)

Changes in Revenue

Fiscal Year 2008 ended with general fund revenues exceeding the forecast by \$15.9 million. Better than expected performance in corporate collections offset shortfalls in individual income tax withholding and sales tax, the largest tax sources and those most reflective of the overall economy. Because of the shortfalls in the largest revenue sources, it was evident in the summer that additional downward revisions to the revenue forecast would be required.

Forecast revisions in the budget presented on December 17, 2008, were based generally on the Global Insight November standard economic outlook that assumed negative GDP for four quarters (July 2008 through June 2009), modified to reflect collections through the first five

months of the fiscal year for payroll withholding, sales and recordation taxes. Individual nonwithholding and corporate tax collections were left unchanged from October forecast revisions until a mid-session reforecast could reflect actual 4th quarter estimated payments for these two major sources.

The mid-session reforecast submitted on February 16, 2009, made downward revisions to income tax nonwithholding, based on a 20.3 percent drop in 4th quarter nonwithholding payments; payroll withholding, based on a sharp slowdown in withholding payments in the last half of January; and sales tax estimates, resulting from a larger than anticipated contraction in holiday sales. The corporate income tax forecast was unchanged as year-to-date collections were tracking the estimate.

In sum, revisions to the 2008-10 biennial forecast total \$3.7 billion as follows: In October, the Governor submitted a reforecast that lowered the revenue estimate by \$973.6 million in FY 2009 and \$1.5 billion in FY 2010, for a biennial total of \$2.5 billion. The subsequent November reforecast (basis for introduced budget) lowered the biennial estimate by an additional \$387.7 million, bringing the total downward revision to \$2.9 billion, including transfers. The February mid-session reforecast lowered the biennial estimate by an additional \$821.5 million, including transfers, for a total cumulative downward adjustment of \$3.7 billion.

The mid-session reforecast assumes a revenue decline of 7.3 percent for FY 2009 over actual collections in FY 2008, and revenue growth of 4.0 percent in FY 2010. Negative base adjustments from FY 2009 were carried forward into FY 2010, but the overall projected growth rate for FY 2010 was not changed from the December submission. When all actions of the General Assembly are taken into account, including several revenue measures shown in the following table to help offset the revenue decline, the projected growth rate for FY 2010 is 4.4 percent.

Notable revenue actions include a one-time settlement with the federal government regarding Title IV-E funds, the addition of 55 auditors at the Tax Department to produce \$22.9 million in compliance collections from taxes already owed the Commonwealth, proceeds of surplus property sales and reduction of certain bank deposit balances in order to reinvest the funds at higher interest rates. Also adopted was a Tax Amnesty program for three months in fiscal year 2010 which is anticipated to generate \$38.0 million to the general fund. The program has identical features to the 2003 Amnesty program, i.e., taxpayers with an unpaid tax liability can settle up with the state in exchange for having the late penalty and half of the interest charges waived. If the delinquent taxpayer does not take advantage of amnesty, an additional 20 percent penalty will be added to his account.

Tax policy actions include a permanent change in the sales tax remittance schedule for large retailers and a temporary change in the amount of Land Preservations Tax Credit that can be claimed. Additional details on these tax policy changes follow.

Changes in GF Revenue
(2008-10 biennium, \$ in millions)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>Biennial</u>
Oct/Dec/Feb Forecast Changes	(\$1,498.2)	(\$2,162.9)	(\$3,661.1)
Miscellaneous Revenue Actions:			
Federal Title IV-E Refund	16.8	0.0	16.8
Enhanced Tax Compliance	1.2	21.7	22.9
Property Sales (Richmond Women's Detention Center, Staunton Office Building and DOC Haymarket Land)	0.0	1.8	1.8
Cash Management		2.6	2.6
Technical Adjustments	<u>5.5</u>	<u>10.4</u>	<u>15.9</u>
FY 2010 Tax Amnesty Program	0.0	38.0	38.0
Retain Additional Clerk's Excess Fees	<u>0.0</u>	<u>7.4</u>	<u>7.4</u>
Miscellaneous Revenue Actions	23.5	81.9	\$105.4
Tax Policy Changes:			
Sales Tax Remittance for Large Dealers	0.0	97.8	97.8
Phased Elimination of REIT Loophole for Non-Financial Corps	0.0	5.0	5.0
Advance Federal Fixed Date Conformity	(1.4)		(1.4)
Adjust LPC Tax Credit that can be Claimed in FY 2010	0.0	50.0	50.0
Digital Media Fee	<u>0.0</u>	<u>0.2</u>	<u>0.2</u>
Tax Policy Changes	(1.4)	153.0	\$151.6
Total Revenue Changes	(\$1,476.1)	(\$1,928.0)	(\$3,404.1)

Major features of tax policy changes include: (1) changing the sales tax remittance schedule for dealers with over \$12.0 million in annual taxable sales; (2) phasing out a corporate tax loophole for non-financial institutions related to placement of real estate in a real estate investment trust controlled by the corporation for the purpose of gaining a business tax deduction for rental payments made to the trust and receipt of revenue distributions from the trust tax free; (3) annual advancement of the date for conformity with federal tax law and (4) reducing the amount of the Land Preservation Tax Credit that a taxpayer can claim against TY 2010 liability from \$100,000 to \$50,000, with the provision that the difference can be claimed in future years.

The permanent change in sales tax remittance for large dealers will take effect on June 20, 2010, when these dealers make their normal remittance for the month of May (current system allows remittance to be made 20 days after the end of the collection month), and an additional remittance for the first 15 days of June. Beginning on July 20, 2010, they will remit and true-up for the balance of June and the first 15 days of July. This cycle will continue in perpetuity, with monthly remittance on the 20th of each month covering the period from the 16th of the previous month through the 15th of the current month. The new remittance schedule will affect less than 1,000 of the 143,530 dealers who remit sales tax.

The combined effect of economic forecast revisions, revenue enhancements and proposed tax policy changes result in the following revenue changes by source:

GF Revenue Changes by Source (2008-10 biennium, \$ in millions)			
	<u>FY 2009</u>	<u>FY 2010</u>	<u>Biennial</u>
Withholding	(\$352.5)	(\$631.0)	(\$983.5)
Nonwithholding	(710.3)	(970.3)	(1,680.6)
Refunds	<u>(18.2)</u>	<u>41.3</u>	<u>23.1</u>
Net Individual	(1,081.0)	(1,560.0)	(2,641.0)
Sales	(264.8)	(233.8)	(498.6)
Corporate	(21.0)	7.3	(13.7)
Wills (Recordation)	(82.7)	(117.0)	(199.7)
Insurance	(37.3)	(34.2)	(71.5)
All Other Revenue	<u>9.4</u>	<u>11.0</u>	<u>20.4</u>
Total Changes	(\$1,477.4)	(\$1,926.7)	(\$3,404.1)

Changes in Transfers

Major transfer increases include a withdrawal from the Revenue Stabilization Fund in FY 2009 of \$490.0 million, the capture of \$83.3 million in special fund and other nongeneral fund balances to help address the revenue shortfall, and the transfer of \$48.9 million of nongeneral fund balances from the University of Virginia and \$7.1 million from Radford University in exchange for state issuance of debt for hospital and auxiliary enterprise projects at the schools.

Major transfer reductions include technical adjustments to reflect \$51.0 million less in sales tax that will be collected for the ¼ cent that is transferred to the general fund and movement of NGF interest from transfers to revenue (with a resulting reduction of \$5.4 million to reflect lower interest yield).

Changes in Transfers
(2008-10 biennium, \$ in millions)

	<u>2008-10</u>
Revenue Stabilization Fund Withdrawal	\$ 490.0
Nongeneral Funds Transferred from UVA	48.9
Nongeneral Funds Transferred from Radford	7.1
Transfer from Va. Tobacco Settlement Foundation (to be replaced by federal stimulus)	7.3
Increased ABC profits	3.3
Lower Sales Tax Collections for DGIF	4.2
Increased Court Debt Collections (TAX)	1.7
Adjust SCC Budget Reduction	1.1
Capture Special and Other NGF Balances	
MH&MR Special Fund	15.1
Health Dept. Water Supply Assistance Fd.	3.1
Health Dept. Vital Stats Automation Fund	2.0
Child Support Enforcement Fund	19.6
DCR Water Quality Improvement Fund for BMP (to be replaced by federal stimulus)	5.2
DEQ Waste Tire Fund	1.0
Katrina Reimbursement (State Police/EM)	1.9
DMV Uninsured Motorists Fund	8.2
Circuit Court Records Fee	1.3
Woodrow Wilson Special Fund	1.5
Fire Programs Fund	1.1
Virginia Correctional Enterprises Fund	1.0
DGS Fleet Vehicle Balance	1.7
Various Agency Funds	20.6
1¼ percent Sales Tax to K-12	(51.0)
Move NGF Interest to Revenue	(20.0)
IDEA funds to Treasury Special Damages Fd.	(9.0)
Miscellaneous Technical Adjustments	<u>(0.7)</u>
Total Transfer Changes	\$566.2

Changes in the Balance

The majority of changes in the June 30, 2008, balance and adjustments thereto reflect technical accounting changes that are routinely required to reconcile the Comptroller's year-end

report with budget actions anticipated in Chapter 879 of the 2008 Acts of Assembly and to account for FY 2008 unspent balances.

A total of \$55.6 million of unspent agency balances were reverted to help address the revenue shortfall. The reappropriation of unspent balances in the introduced budget included \$382.9 million for active capital projects, \$350.0 million of which will be shifted to debt to help with the revenue shortfall. Based on General Assembly action, \$41.1 million in capital and maintenance reserve balances will be reverted with \$35.7 million of this amount to be covered by federal stimulus funds.

Other adjustments include reinstatement of a \$21.3 million sum sufficient natural disaster appropriation, transfer of the \$50.0 million Capital Planning Fund to a NGF account, and the pullback of \$7.0 million from the Capital Planning Fund for the Charlotte County prison which will be handled through a public-private partnership.

Adjustments to Beginning Balance (2008-10 biennium, \$ in millions)	
Comptroller's Unreserved GF Balance at 6/30/2008	\$1,091.9
Less: Balance Anticipated in Chapter 879 (2008)	<u>312.8</u>
FY 2008 Remaining Unreserved Balance	\$779.1
Changes to Balance:	
Technical: Add FY 09 Rainy Day Fund Deposit	21.3
Technical: Add FY 09 Payroll Reserve	91.7
Reappropriated Capital Balances (introduced budget)	(382.9)
Revert Chapter 1 Project Planning Balances (\$16.7 million to be replaced by federal stimulus)	20.1
Revert Additional Capital Balances (to be replaced by federal stimulus)	4.0
Revert Capital Balance from NOVA Forensics & MH&MR	2.0
Revert Maintenance Reserve Balances (to be replaced by federal stimulus)	15.0
Reappropriated Operating Balances (introduced budget)	(440.3)
Revert Legislative Agency Operating Balances	5.9
Revert Supreme Court Operating Balances	3.0
Revert State Police Operating Balances	4.3
Revert Miscellaneous Operating Balances	1.7
Natural Disaster Match Authorized	(21.3)
Establish Capital Planning Fund as NGF Account	(50.0)
Planning Funds for Charlotte County Prison	7.0
AG's Office Debt Collection Balance	<u>1.1</u>
Total Adjustments	\$61.7