

Resource Changes for 2008-10

The revenue reforecasting process undertaken this fall resulted in a net forecast reduction of available GF revenues (including transfers) of \$2.9 billion. After technical adjustments to transfers (ABC profits, ¼ cent sales tax for education) and proposed tax policy changes to offset the shortfall are taken into account, the revised biennial general fund revenue forecast is \$2.64 billion less than assumed when Chapter 879 was adopted by the 2008 General Assembly.

The Governor proposes to offset the December revenue shortfall of \$2.9 billion through the following actions: (1) a \$490.0 million withdrawal from the Revenue Stabilization Fund (RDF), (2) tax policy adjustments totaling \$137.8 million GF (the proposed cigarette tax increase is non-general fund revenue, (3) \$182.9 million in increased transfers and miscellaneous actions and (4) \$2.1 billion in across-the-board and targeted program reductions in the form of proposed amendments to Chapter 879.

Reduction in General Fund Resources Available for Appropriation for 2008-10 (2008-10 biennium, \$ 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	(525.3)	(773.3)
Official Revenue Estimates	33,280.0	30,637.3	(2,642.7)
Appropriation Act Transfers	<u>772.3</u>	<u>1,322.2</u>	<u>549.9</u>
GF Resources Available for Appropriation	\$34,613.1	\$32,526.1	(\$2,087.0)
*Note: Official revenue estimate assumes passage of tax policy changes proposed in HB 1600/SB 850.			

Changes in Revenue

Fiscal year 2008 ended with general fund revenues exceeding the forecast by \$15.9 million. However, 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. Therefore, it was evident in the summer that additional downward revisions to the revenue forecast would be required.

Forecast revisions in the introduced budget are based generally on the Global Insight November standard economic outlook that anticipates a four-quarter recession, 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 the October forecast revisions and will be reevaluated once the fourth quarter estimated payments are received (the reforecast submitted by the Governor in October 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 lowered the biennial estimate by an additional \$387.7 million, bringing the total downward revision to \$2.9 billion, including transfers).

The revised revenue economic growth rate assumption, net of adopted and proposed tax policy changes, is -2.8 percent for FY 2009 and 3 percent for FY 2010, with a corresponding revenue reduction of \$2,839.6 million (not including transfers). When adopted and proposed tax policy changes (proposed changes are outlined in the following table), and other revenue adjustments are included, the revenue growth rates are -4.8 percent for FY 2009 and 4 percent for FY 2010.

Beyond proposed tax policy changes that add a biennial total of \$137.8 million in general fund revenue (the proposed cigarette tax increase is non-general fund revenue), additional revenue enhancements 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 additional tax compliance collections, proceeds of property sales and reduction of certain bank deposit balances in order to reinvest the funds at higher interest rates as outlined below.

Changes in GF Revenue (2008-10 biennium, \$ in millions)			
	<u>FY 2009</u>	<u>FY 2010</u>	<u>Biennial</u>
Oct/Dec Forecast Changes	(\$1,095.0)	(\$1,744.6)	(\$2,839.6)
Federal Title IV-E Refund	16.8		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)		1.8	1.8
Cash Management		2.6	2.6
Miscellaneous Technical	5.2	10.0	15.1
Tax Policy Changes:			
Retain Additional Clerk's Excess Fees		6.0	6.0

Changes in GF Revenue (2008-10 biennium, \$ in millions)			
	<u>FY 2009</u>	<u>FY 2010</u>	<u>Biennial</u>
Tax Policy Changes:			
Eliminate Sales Tax Dealer Discount		64.3	64.3
Eliminate REIT Loophole for Non-Financial Corps		10.0	10.0
Advance Federal Fixed Date Conformity	(2.8)	10.5	7.7
Adjust LPC Tax Credit that can be Claimed in FY 2010		50.0	50.0
Sales Tax from Proposed Cigarette Tax Increase		2.0	2.0
Energy Tax Credit		(2.0)	(2.0)
Energy Sales Tax Exempt	_____	_____(0.2)	_____(0.2)
Total Revenue Changes	(\$1,074.6)	(\$1,568.0)	(\$2,642.7)

Major features of tax policy changes include: (1) retaining an additional 1/3 of excess state fees that Circuit Court clerks collect beyond the cost of their office operations (clerks currently retain 2/3rds and the state retains 1/3rd); (2) eliminating the sales tax dealer discount in FY 2010 (the discount ranges from 2 percent for dealers with monthly taxable sales over \$208,000 to 4 percent for dealers with sales under \$62,500 per month); (3) eliminating 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; (4) annual advancement of the date for conformity with federal tax law with the primary revenue raising provision being modification of tax treatment for Offshore Nonqualified Deferred Compensation (H.R. 1424: The Emergency Economic Stabilization Act of 2008); and (5) 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 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	(\$266.7)	(\$542.2)	(\$808.9)
Nonwithholding	(436.0)	(693.6)	(1,129.6)
Refunds	<u>(28.8)</u>	<u>30.1</u>	<u>1.3</u>
Net Individual	(731.5)	(1,205.7)	(1,937.2)
Sales	(214.8)	(224.6)	(439.4)
Corporate	(21.0)	0.8	(20.2)
Wills (Recordation)	(82.7)	(117.0)	(199.7)
Insurance	(37.3)	(34.2)	(71.6)
All Other Revenue	<u>12.7</u>	<u>12.6</u>	<u>25.3</u>
Total Revenue Changes	(\$1,074.6)	(\$1,568.1)	(\$2,642.7)

Changes in Transfers

Major transfer increases include a proposed withdrawal from the Revenue Stabilization Fund in FY 2009 of \$490.0 million, the capture of \$74.1 million in special fund and other nongeneral fund balances to help address the revenue shortfall (October and December budget reduction plans), 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
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
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
Various Agency Funds	18.5
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	\$549.9

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 and to account for FY 2008 unspent balances.

A total of \$40.7 million of unspent agency balances were reverted to help address the revenue shortfall. The reappropriation of unspent balances includes: \$440.3 million in agency mandatory and discretionary balances (includes \$17.1 million in savings identified by the Governor in the 2008 reconvened session which will be unallotted in FY 2009) and \$382.9 million for active capital projects (\$350.0 million of which is proposed to be shifted to debt in HB 1600/SB 850).

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
Reappropriation of Capital Balances	(382.9)
Reappropriation of Operating Balances	(440.3)
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	\$5.7