

Resource Changes for FY 2010 (Caboose Bill)

HB/SB 29 includes a reduction of \$1.4 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 \$126.1 million, (2) a net reduction in the general fund revenue forecast of \$1,340 million, and (3) an addition in transfers of \$106.1 million. This reduction is partially offset by a proposed withdrawal from the Revenue Stabilization Fund (RDF) of \$292.9 million, leaving a net reduction in general fund resources of \$1.1 billion to be addressed in the proposed budget.

HB/SB 29 combined resource and spending proposals result in a balance of \$26.7 million to be carried forward into the next biennium, as a beginning balance in HB/SB 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	\$496.4	(\$126.1)
Official Revenue Estimate	15,262.0	13,921.8	(1,340.2)
Transfers	441.8	547.9	106.1
GF Resources Available for Appropriation	\$16,326.3	\$14,966.1	(\$1,360.2)
Plus: Proposed Withdrawal from Rainy Day Fund			292.9
Net Change in Resources Available			(1,067.3)
HB/SB 29 Carry Forward Balance			\$26.7

Changes in the Balance

HB/SB 29, as introduced, assumes a net reduction of \$126.1 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/SB 29 proposes that an additional \$68.1 million of balances that were identified in the Governor's September 2009 Budget Reduction Plan be reverted to help with the budget problem, 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)	
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)
Miscellaneous technical	<u>(5.3)</u>
Total	(\$126.1)

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 4.9 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. HB/SB 29 proposes to repeal the 2009 action and replace 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.

Chapter 781 assumed net GF collections from the Tax Amnesty program authorized by the 2009 General Assembly of \$38.0 million. The preliminary results of tax amnesty collections have exceeded the estimate by \$43.0 million; however this could increase further as the final reconciliation is completed. HB/SB 29 reflects these amounts. HB/SB 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 date for conformity with federal tax law is proposed to be advanced to December 31, 2009, with the exclusion of the federal cancellation of debt provision which would have reduced FY 2010 revenue by \$99.4 million. Remaining federal tax law changes reduce revenue by \$14.7 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.

HB/SB 29 includes an enactment that amends and reenacts Section 58.1-615.1 of the Code, clarifying the wording of a 2004 Session change related to royalty payments made to affiliated intangible holding companies. Interpretation of the *Code of Virginia* language continues to be questioned, and the proposed amendment clarifies initial intent.

Adjustments to Revenue (\$ in millions)	
August Interim Forecast	(\$1,182.6)
December "economic" adjustments	(340.0)
Accelerate sales tax collections in June, 2010	144.0
Additional funds from Tax Amnesty	43.0
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 12/31/09	(14.7)
Federal military spouse legislation (pre-emption)	(14.9)
Miscellaneous other	<u>(0.9)</u>
Total	(\$1,340.2)

Changes in GF Revenue by Source (\$ in millions)	
	<u>FY 2010</u>
Gross Individual Income Tax	(\$ 853.7)
Refunds	(233.1)
Corporate	(18.8)
Sales Tax	(135.5)
Other Revenue	<u>(99.1)</u>
Total Changes	(\$1,340.2)

After accounting for “economic” revenue changes and proposed policy adjustments, GF revenues are projected to decline by 2.7 percent in FY 2010. Actual performance through November is shown below.

General Fund Taxes By Source FY 2010 (\$ in millions)		
	December Forecast <u>% Growth</u>	YTD thru Nov. 2009 <u>% Growth</u>
<u>Base w/o tax policy</u>		
Net Individual	(5.8)%	(7.4)%
Corporate	2.2%	18.2%
Sales	(4.1)%	-5.8%
Recordation	(9.6)%	(2.9)%
Insurance	0.2%	0.0%
All Other	<u>(2.1)%</u>	<u>(19.1)%</u>
Total Revenues	(4.9)%	(6.8)%
Projected growth w/tax policy	(2.7%)	

Changes in Transfers

HB/SB 29 assumes an increase in transfers of \$106.1 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
Suspend Deferred Comp state match (NGF)	1.4
Delay VRS employee contribution until July (NGF)	12.7
NGF operating balances targeted in September plan	21.3
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
Increase Trauma Center Fund transfer	1.0
1-day employee furlough (NGF)	7.6
e-VA savings	2.8
VITA operating efficiencies	0.5
Miscellaneous other	1.6
ABC 2 percent mark-up (Effective February 2010)	1.7
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 NGF transfer-Governor's veto	<u>(1.1)</u>
Total Changes	\$106.1

Nongeneral Fund Fee

HB/SB 29 proposes to increase 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/SB 30 Resources

The Governor's proposed 2010-12 budget includes \$30.5 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation (2010-12 biennium, \$ in millions)	
Beginning Balance	\$26.7
Adjustments to the Balance	(1.5)
Official GF Revenue Estimate	29,632.9
Transfers	<u>812.5</u>
GF Resources Available for Appropriation	\$30,470.6

Available Balance

The budget, as introduced, includes \$26.7 million as a projected unspent balance at the end of the 2008-10 biennium. Adjustments to the balance include a \$500,000 per year contingency for the Intergovernmental Cash Management Act and the revenue impact of a relief bill passed in the August 2009 Special Session.

GF Revenue Estimate

The HB/SB 30 revenue estimate reflects the ripple effect of the FY 2010 \$1.5 billion reduction in the revenue base, along with anticipated "economic" growth of about 5.2 percent in each year of the 2010-12 biennium (economic growth rate adjusts for one-time tax amnesty and sales tax acceleration revenue in the FY 2010 base).

Projected "economic-based" revenues of \$14,329.5 million in the first year and \$15,071.3 million in the second year are roughly \$2.0 billion per year below the amount anticipated in December 2008, but would exceed projected FY 2010 "economic-based" collections by roughly \$600 million in FY 2011 and \$1.3 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/SB 30 includes miscellaneous revenue adjustments that add \$25.5 million in the first year and \$3.1 million in the second year. Proposed policy adjustments add another \$96.4 million in the first year and \$107.0 million in the second year. All proposed adjustments are detailed in the table below.

The combined total for “economic-based” revenue and proposed adjustments is \$29.6 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	\$9,543.4	6.7%	\$10,081.6	5.6%
Corporate	737.4	4.6%	813.3	10.3%
Sales	2,890.2	(4.4)%	2,986.0	3.3%
Insurance	274.4	7.4%	292.2	6.5%
Recordation	299.0	5.3%	299.0	0.0%
All Other	<u>707.0</u>	(0.1%)	<u>709.3</u>	0.3
Total Revenues	\$14,451.4	3.8%*	\$15,181.4	5.1%
*Growth rate is 5.2% without tax policy adjustments.				

**Proposed Miscellaneous and Tax Policy Adjustments in
HB/SB 30, as Introduced**
(Biennial \$ in millions)

Eliminate sales tax dealer discount	\$121.8
De-conform: federal domestic production tax subtraction	60.0
Sales tax exemption: economic development project	(2.7)
Boiler Inspection fee	0.7
2/3rds of Clerk's "excess" fees: Increment from revised est.	6.1
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
Advance federal tax conformity date 12/31/09	(4.3)
Federal military spouse legislation (pre-emption)	(19.8)
Miscellaneous other	<u>0.1</u>
Total	\$232.0

The Governor also has announced his intention to introduce legislation outside of the budget to establish a one percent individual income tax surcharge, with proceeds to be returned to localities in the same proportion that the current \$950.0 million car tax payment is returned to localities, in exchange for local action to eliminate the personal property tax on all personal use vehicles. HB/SB 30 does not contain the proposed legislation but does eliminate the \$950.0 million annual appropriation for the Personal Property Tax Relief Act.

Transfers

Proposed transfers to the general fund increase available resources by \$812.5 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 \$90.3 million for the biennium, reflecting an additional \$8.0 million from a 2 percent increase in the ABC mark-up that is implemented effective February 1, 2010 at the direction of language in HB/SB 29. An additional \$130.8 million of ABC profits and \$19.8 million of wine tax profits are dedicated to DBHDS substance abuse programs.

HB/SB 30 includes a proposed transfer of \$18.8 million in FY 2011 which represents 5 percent of higher education auxiliary enterprise balances (dorm, dining hall and related operations).

Finally, transfers include \$36.6 million to capture the NGF share of proposed savings from requiring employees to contribute 1 percent of salary toward the VRS employee contribution in FY 2011 and 2 percent of salary in FY 2012, \$11.9 million from applying this

policy to optional retirement plans like TIAA-CREF, and \$14.0 million from suspending the state match provided for employee contributions to the optional Deferred Compensation program.

Proposed Transfers in HB/SB 30, As Introduced	
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)	90.3
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	27.0
Uninsured Motorists Funds (including Real ID pull-back)	12.8
Court Debt Collections	9.2
Higher Education auxiliary enterprise fund balances (5 percent)	18.8
VITA operating efficiencies	2.0
IDEA Fund	13.0
Trauma Center Fund	4.9
State Insurance Reserve Fund balance	4.4
Land Preservation Credit Management fees	1.2
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 1%/2% employee contribution to VRS	36.6
NGF savings from 1%/2% employee contribution to optional plans	11.9
NGF savings from suspending Deferred Compensation match	14.0
Savings from using lowered VRS/VSDP/health care credit rates	8.6
Miscellaneous Other	<u>5.4</u>
Total	\$812.5

Nongeneral Fund Fees

HB/SB 30 proposes the following assessments as fees to be deposited into dedicated NGF accounts.

Major NGF Fee Proposals in HB/SB 30, As Introduced (\$ in millions)	
\$10.00 increase in Deed Recording Fee (enacted in HB/SB 29)	\$9.1/FY 11
Deposited to Natural Resources Commitment Fund	\$9.1/FY 12
Use: Agricultural best management practices	
½ percent property and casualty insurance gross premiums	\$22.0/FY 11
Deposited to Virginia Public Safety Fund	\$44.0/FY 12
Use: STARS maintenance and counter terrorism; sheriff law enforcement and court security; HB 599 activities	
\$0.18 fee increase for each E-911 line	\$18.6/FY 11
Deposited to Line of Duty Death & Health Benefits Trust Fund	\$20.3/FY 12
Use: Provide death and disability health benefits	
Address programs' estimated \$199.0 million unfunded liability	

The deed recording fee has always been established in the budget rather than the Code; therefore, the proposed increase is also reflected in the budget. Revenues generated by both the property and casualty premium surcharge and the E-911 per line fee are assumed in the budget but stand-alone legislation will be proposed to authorize these changes.