Resources

FY 2018 General Fund revenues rose by 6.3 percent, well ahead of the official forecast of 3.4 percent growth, resulting in a revenue surplus of $555.5 million (including transfers). The gain in net individual income tax and sales tax, about $618 million, was somewhat offset by shortfalls in all other revenue sources. As a result of the higher than anticipated base, FY 2019 tax collections have to grow only 1.5 percent to meet the revenue assumptions included in Chapter 2 of the 2018 Acts of Assembly, Special Session I (HB 5002).

The Joint Advisory Board of Economists (JABE) and the Governor's Advisory Council on Revenue Estimates (GACRE) met as part of the standard Fall Reforecasting process to review updated economic projections as well as actual fiscal year 2018 collections. While economic conditions appear to have remained fairly steady, year-to-date revenue collections continue to show strength. Through the first five months of FY 2019, total revenues increased 3.4 percent, well ahead of the forecast of 1.5 percent growth. As a result, the December Forecast adds $548.2 million over the biennium, $296.4 million of it in the current year, as a reflection of "cash in the bank." The December Forecast increases the assumed economic growth in FY 2019 to 3 percent, and reduces projected growth to 3.7 percent in FY 2020. The table on the next page details the changes to the forecast that have occurred since Chapter 2 was adopted by the 2018 General Assembly.

In addition to economic adjustments to the forecast, HB 1700/SB 1100 include a net total of $1,041.5 million associated with proposed and assumed tax policy adjustments and technical adjustments. The vast majority of this revenue will result from limitations on itemized deductions and the increase in the standard deduction at the federal level which will induce more taxpayers to claim the standard deduction on their state returns with the provisions of the federal Tax Cut and Jobs Act (TCJA), which is detailed on the following pages. When added to the economic-based revisions to the collection forecast, this revenue would increase overall growth to 5.9 percent in FY 2019 and 3 percent in FY 2020, bringing total assumed general fund collections to $42.7 billion for the biennium.

In total, the proposed revisions to the FY 2018-20 resources contained in HB 1700/SB 1100 include $2.17 billion more in general fund resources than that assumed in Chapter 2. The resource adjustments reflect (1) a net balance adjustment of $577.4 million; (2) a $1.6 billion increase in the general fund revenue forecast; and (3) transfer additions of $0.4 million.

As proposed, the amendments contained in HB 1700/SB 1100 would leave an unappropriated balance of $24.8 million at the close of the FY 2020.

Change to General Fund Resources Available for Appropriation

($ in millions)

	Chapter 2	HB 1700/SB 1100	Difference
Unrestricted Balance (June 30, 2018)	$ 212.6	$ 1,229.9	$1,017.8
Balance Adjustments	21.5	(418.8)	(440.4)
Net Adjustments to Available Balance			$577.4
Chapter 2 Revenue Estimate	$41,149.8		
GACRE/Economic Forecast Adjustments		548.2	548.2
Assumed Revenue - Internet Sales Tax		82.5	82.5
Assumed Revenue - TCJA		1,205.3	1,205.3
Assumed Revenue Loss - Tax Policy*		(243.5)	(243.5)
Technical Adjustments		(2.8)	(2.8)
HB 1700/SB 1100 Revenues		$42,739.6	$1,589.6
Transfers	$ 1,252.0	$1,252.4	$ 0.4
Net Change to GF Resources			**$2,167.6**

**Tax policy proposals include the Earned Income Tax Credit and the adjustment to the Accelerated Sales Tax cap.*

Economic Projections

The economic growth in HB 1700/SB 1100 assumes personal income, wage and salary income growing at about a 4 percent to 4.5 percent pace over the forecasted horizon, while employment is forecast to increase 1.7 percent in FY 2019 – faster than the 1.4 percent increase in FY 2018. Federal government spending was virtually flat in calendar year 2017, but is expected to grow 3.6 percent in calendar year 2018 and 4.4 percent in calendar year 2019. Overall, Virginia's economy is expected to mirror national trends in job growth and have slightly softer growth in wages. Projected growth rates, before policy adjustments, are now estimated at 3 percent in FY 2019 and 3.7 percent in FY 2020 in comparison to the growth rate assumptions of 3.7 percent and 3.9 percent, respectively, in Chapter 2.

Economic Variables Assumed In Forecast
Percent Growth Over Prior Year
(December Forecast)

	FY 2019		FY 2020	
	VA	U.S.	VA	U.S.
Employment	1.7%	1.6%	1.1%	1.3%
Personal Income	4.1%	4.4%	4.8%	4.9%
Wages & Salaries	4.3%	4.6%	4.2%	4.8%

Tax Policy Changes Assumed in Revenue Forecast

Embedded in the Governor's amended budget proposal are revenues associated with a number of tax policy changes that have not been adopted by the General Assembly. In total, it assumes $1.2 billion in additional revenues as a result of the federal Tax Cut and Jobs Act of 2017 (TCJA), and $82.5 million GF from assumed adoption of legislation authorizing collection of additional sales tax from internet retailers, offset by revenue reductions of $216.3 million from the adoption of legislation to make the Earned Income Tax Credit (EITC) refundable, and a one-time cost of $27.2 million to increase the threshold for retailers required to participate in the Accelerated Sales Tax (AST) collection program to $10.0 million in FY 2020. In combination this would increase net general fund revenues by $1,041.5 million if adopted.

These amounts are fully appropriated in the Governor's proposed amendments included in HB 1700/SB 1000, as introduced. The Administration reports that spending associated with components of the TCJA which are set to expire after 2025 are used solely for "limited time," "scaleable" spending items.

Tax Cut and Jobs Act (TCJA) of 2017. The TCJA is assumed to generate a total of $1.2 billion in additional revenues over the biennium. This includes ongoing revenues of $76.9 million in FY 2019 and $177.5 million in FY 2020 from portions of the Act which are permanent – primarily those relating to changes to business and international tax provisions. Also included is $517.3 million in FY 2019 and $433.6 million in FY 2020 relating to adjustments to personal income tax provisions which are set to expire after TY 2025 under the TCJA. Most Virginians will see either a net decrease or no change in their combined federal and state tax liability as a result of the federal Tax Cuts and Jobs Act (TCJA). However, many taxpayers who save on federal taxes may owe more on their state returns. This is primarily because of limitations on itemized deductions and the increase in the standard deduction at the federal level will induce more taxpayers to claim the standard deduction on their state returns. Under Virginia law, taxpayers are required to claim the same type of deduction (standard or itemized) on their Virginia returns.

Language which would change Virginia's fixed date conformity to the federal tax code to December 31, 2018 is included in Part 5 of the budget. Stand-alone legislation enacting this change also is expected to be introduced to the 2019 General Assembly Session.

Refundability of the Earned Income Tax Credit. HB 1700/SB 1100 also assume revenue reductions of $10.3 million in FY 2019 and $206.0 million in FY 2020 by making Virginia's earned income tax credit refundable. Under existing law, a taxpayer's EITC credit is limited to taxes paid. With this change a taxpayer would receive the maximum credit regardless of the amount of state income taxes paid. This is anticipated to affect approximately 400,000 Virginians. Stand-alone legislation enacting this change is also expected to be introduced to the 2019 General Assembly Session. The intent would be that this provision would expire when the individual income tax changes included in the TCJA expire after TY 2025.

"Wayfair" Internet Sales Tax Collections. The Governor's proposed amendments to the budget assume a total of $82.5 million general fund will be collected over the biennium as a result of language included in Part 5 of the budget expanding the remote seller sales tax nexus provisions. A decision by the Supreme Court in the case *Wayfair v. South Dakota* released this past year authorizes states to require retailers to collect sales taxes owed even when the retailer has no physical presence in that jurisdiction. In total, authorizing such a change in Virginia is anticipated to generate $155.0 million in FY 2020. Of that amount, $82.5 million would accrue to the general fund – inclusive of both the unrestricted amount and the share dedicated to K-12 pursuant to the *Code of Virginia* – and the remainder would be distributed under the existing sales tax distribution requirements to transportation, localities, and the regional transportation authorities. This language also repeals provisions of Chapter 766 of the 2013 Acts of Assembly which would dedicate these internet sales tax revenues to transportation. Also included in Part 5 of the budget is language defining marketplace facilitators who may help remit the sales taxes from smaller retailers.

Increase Accelerated Sales Tax Threshold. HB 1700/SB 1000 retains the current $4.0 million taxable sales threshold for remittance of the June accelerated sales tax in FY 2019 and increases the threshold to $10.0 million in FY 2020. This would remove 1,800 businesses from the AST requirement and result in a one-time revenue reduction of $27.2 million in the second year. The language authorizing the change to the provisions is included in Part 3 of the amended budget proposal.

Finally, technical adjustments reduce projected revenues by $2.8 million, including a reduction of $3.4 million by eliminating the revenues assumed to accrue to the Commonwealth from the utility rate credit, offset by an assumed revenue increase of $617,000 generated by increasing tobacco staffing in Northern and Southwest Virginia.

Overall Changes in GF Revenues by Source

When proposed tax policy changes and technical adjustments are added to the economic forecast revisions, the projected revenue growth rates are 5.9 percent in FY 2019 and 3.0 percent in FY 2020.

Change in GF Taxes by Source Compared to Chapter 2

($ in millions)

	Estimated FY 2019	Annual Growth	Estimated FY 2020	Annual Growth
Withholding	$143.7	3.8%	$171.2	4.0%
Nonwithholding	632.7	15.2%	483.1	2.9%
Refunds	85.0	3.3%	(130.0)	15.6%
Corporate	(1.5)	5.6%	117.1	14.6%
Sales	43.8	3.7%	105.9	3.9%
Insurance	18.7	17.0%	12.7	3.8%
Recordation	(38.6)	(6.7%)	(38.6)	0.0%
All Other	(6.9)	3.0%	(8.6)	2.0%
Total GF Revenues	**$876.9**	**5.9%**	**$712.8**	**3.0%**

Changes in Transfers and Balance Adjustments

A series of technical balance adjustments are required to align the Chapter 2 balance with the FY 2018 year-end Comptroller's report. Adjustments to the beginning balance reflect year-end assets, including the larger than anticipated FY 2018 revenues and agency balances, and then withdraw funds pending distribution and redeposit restricted funds, like the Revenue Stabilization and Lottery Proceeds funds. Adjustments to the balance reflect the commitment of general funds with mandatory carry-forwards, like the Water Quality Improvement Fund and the Revenue Cash Reserve. Also included is $262.9 million for the FY 2020 Revenue Stabilization Fund reserve, $235.2 for the FY 2019 Cash Reserve deposit, and $73.8 million for the FY 2020 WQIF deposit. It also reflects $70.2 million FY 2018 discretionary balances that are reverted in HB 1700/SB 1100.

Net transfer adjustments total $0.4 million in HB 1700/SB 1100 and includes $22.9 million in increased transfers offset by transfer reductions of $22.5 million over the biennium. The largest increases derive from adjustments to the sales tax forecast for the 0.375 percent of sales tax transferred to the general fund for K-12. This includes an adjustment of $7.0 million to the base sales tax forecast as well as $10.3 million attributable to the assumed adoption of legislation authorizing expanded collection of sales tax from internet retailers. Notable downward adjustments relate to decreases intended to backfill revenues lost from legislation to be proposed to the 2019 General Assembly relating to driver's license reinstatement fees totaling $9.0 million over the biennium as well as adjustments to assumed revenues generated from court debt collections (reduction of $2.2 million), unrefunded marine fuels ($5.2 million), and the Integrated Drug Enforcement (IDEA) Fund ($3.0 million). The remaining transfer and balance adjustment items are outlined in the table below.

Changes to Transfers and Balances Compared to Chapter 2
($ in millions)

	2018-20
Unrestricted Balance:	
Unrestricted Fund Balance, Comptroller's August Report	$1,229.9
Balance Reflected in Chapter 2	212.2
Adjustment Needed to Restate Unrestricted Balance	**$1,017.8**
Adjustments to the Unreserved Balance:	
Chapter 2 Balances	$21.5
Revenue Cash Reserve	(390.8)
Re-appropriate Capital Projects	(7.2)
Virginia Health Care Fund (NGF)	(30.2)
Central Capital Planning Fund (NGF)	(2.8)
Local Communications Sales & Use Tax (NGF)	(34.0)
Commonwealth Development Opportunity Fund	(27.4)
Natural Disaster Sum Sufficient	(81.8)
Mandatory GF Reappropriation	(77.0)
Virginia Water Quality Improvement Fund (NGF)	(93.1)
Economic and Technology Development	(78.7)
Health and Public Safety	(57.1)
Environmental Quality and Natural Resource Preservation	(17.5)
Other Committed and Assigned	(18.1)
Discretionary Re-appropriations	(163.9)
Miscellaneous Other Adjustments	(3.0)
Appropriate 2019 Revenue Reserve	235.2
Appropriate 2020 Rainy Day Fund Reserve	262.9
Appropriate 2020 WQIF Part A and B Deposits	73.8
Add Reverted Discretionary Balances	70.2
Net Balance Adjustments	**($418.8)**
Transfers:	
Wayfair Sales Tax Forecast Adjustment (0.375 cents for K-12)	$10.3

Changes to Transfers and Balances Compared to Chapter 2

($ in millions)

	2018-20
Base Sales Tax Forecast Adjustment (0.375 cents for K-12)	7.0
ABC Profits	4.8
Court Debt Collection	(2.2)
Unrefunded Marine Fuels	(5.2)
NGF Indirect Costs	(2.8)
IDEA Fund Transfer	(3.0)
Trauma Center Fund Transfer	(6.2)
Communication Sales Tax Transfer	(2.0)
Reduce OAG Revolving Trust Transfer to GF	(1.0)
Miscellaneous Other Transfers	0.7
Total Transfer Adjustments	**$0.4**