

# Resources

The adopted budget includes a net increase of \$1,347.9 million in general fund resources available for appropriation during the 2004-06 biennium.

This net increase results primarily from four factors: (1) stronger than anticipated revenue growth in fiscal year 2004, which resulted in revenue collections above the forecast; (2) a corresponding increase in the revenue base for the 2004-06 biennium; (3) continued strong economic growth in fiscal year 2005; and (4) a sizeable increase in the Lottery forecast.

<b>General Fund Resources Available for Appropriation</b> (2004-06 biennium, \$ in millions)			
	<u>Chapter 4</u>	<u>HB 1500</u>	<u>Change</u>
<b>Available Balances</b>	\$272.9	\$598.8	\$325.9
<b>Revenue Estimate</b>	25,545.3	26,456.3	911.0
<b>Transfers/Deposits:</b>			
Lottery Proceeds Fund	797.0	865.3	68.3
Other Transfers	<u>670.9</u>	<u>713.6</u>	<u>42.7</u>
	1,467.9	1,578.9	111.0
<b>Total GF Resources Available</b>	<b>\$27,286.1</b>	<b>\$28,634.0</b>	<b>\$1,347.9</b>

## Available Balances

Balance adjustments include accounting for the \$323.8 million in fiscal year 2004 revenue that was collected above the estimate, with set-asides for natural disaster awards approved prior to June 30; the Transportation Trust Fund portion of accelerated sales tax; and non-general fund interest earnings returned to NGF accounts. Balance adjustments also include technical entries related to mandatory reserves established for accrued payroll at the end of fiscal year 2004 and \$22.7 million in Lottery profits above the estimate.

Finally, capital balances unspent at the end of fiscal year 2004 are re-appropriated, and \$92.4 million of operating balances are returned to agencies, with the remaining \$27.2 million reverted for use in the 2004-06 biennium.

Additional obligations adopted against the balance include \$9.8 million for natural disaster costs incurred since July 1, and a deficit loan authorization to offset a change in fund source for staff salaries in the Governor's and Cabinet Secretaries' offices, prior to the effective date of the 2005 session amendments.

The remaining \$325.9 million balance is applied toward required Rainy Day Fund and Water Quality Improvement Fund deposits and other budget items.

<b>Adopted Adjustments to Balances</b> (\$ in millions)	
<b>FY 2004 Revenue Above Forecast/Agency Balances</b>	<b>\$403.2</b>
Technical adj. for year-end payroll/Lottery reserves	92.4
Set-asides from FY 2004 balance:	
Natural Disaster match authorized through June 04	(26.0)
TTF share of accelerated sales tax	(23.8)
Interest earnings returned to NGF agencies	(7.6)
Re-appropriation of capital and operating balances	(113.5)
Additional Natural Disaster Allocations	(9.8)
Deficit authorization for Gov/Cabinet staff salaries	(2.3)
Federal Audit of Internal Service Funds	(0.3)
NPM escrow not appropriated to Health Care Fund	6.5
Debt service savings	4.7
Miscellaneous other	<u>2.4</u>
<b>Total Balance Adjustments</b>	<b>\$325.9</b>

### Estimated Revenues

Setting aside tax policy changes, the introduced budget includes an upward revision of \$1,199.0 million in the GF revenue forecast to recognize the higher revenue base from fiscal year 2004 activity and the expectation that Virginia's economy will continue to outpace the nation. The revised growth rate based on pure economics (omitting tax policy changes and funds moved to the Virginia Health Care Fund), is 8.2 percent in fiscal year 2005 and 3.7 percent in fiscal year 2006. (Revenue increased by 9.7 percent in fiscal year 2004).

Minor revenue changes; including rental income, prisoner revenue, and compliance revenue add \$14.6 million, to produce a total projected economic-driven increase in GF revenue of \$1,213.6 million.

When tax policy changes are taken into account, the revised GF revenue change is \$911.0 million, reflecting a growth rate of 11.7 percent in fiscal year 2005 (10.3 percent if Virginia Health Care Funds are not removed from fiscal year 2004 base), and 1.3 percent in fiscal year 2006. (A description of tax policy changes follows).

<b>Economic Changes in Major Tax Sources</b> <b>(February mid-session Forecast)</b> (\$ in millions )		
	<u><b>FY 2005</b></u>	<u><b>FY 2006</b></u>
Income Tax Withholding	\$124.4	\$166.3
Income Tax Non-withholding	137.9	(25.4)
Tax Refunds	(33.5)	(26.4)
Corporate	150.7	83.1
Sales Tax	85.7	136.2
Wills, Suits, & Deeds	187.7	137.1
Compliance (income & sales)	0.0	9.9
Other Revenue	<u>47.4</u>	<u>32.5</u>
<b>Total Economic-Driven Changes</b>	<b>\$700.3</b>	<b>\$513.3</b>

Key assumptions underlying the revised forecast are (1) job growth of 2.4 percent each year, verses 1.9 percent estimated growth in fiscal year 2004, and (2) wage and salary growth of 5.9 percent in fiscal year 2005 and 5.7 percent in fiscal year 2006, compared to an estimated 5.8 percent growth in fiscal year 2004.

<b>Economic Variables Assumed in Forecast</b> (November Forecast) (Percent Growth Over Prior Year)			
	<b>Actual</b>	<b>Forecast</b>	
	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Virginia Employment	1.9%	2.4%	2.4%
Virginia Wages & Salaries	5.8	5.9	5.7
Virginia Personal Income	5.4	6.0	5.4

**Tax Policy Changes.** Beyond the economics, the adopted budget includes tax policy changes that would reduce GF revenue by \$302.7 million. When these tax policy changes are combined with those approved in the 2004 session, the resulting net GF growth rate is 11.7 percent in fiscal year 2005 (10.3 percent if Virginia Health Care Funds are not removed from fiscal year 2004 base), and 1.3 percent in fiscal year 2006.

Tax policy changes are explained in greater detail below.

<b>Tax Policy Changes</b> (\$ in millions)	
Reduce the sales tax on food by 1.5% on July 1, 2005, rather than phasing the cut over three years	(\$99.1)
Revised estimate of food tax cut in Chapter 4	6.5
Eliminate accelerated sales tax payment for annual sales less than \$50 million	(200.1)
Move fixed date conformity with federal tax law to December 31, 2004	(6.7)
Return 3% of the 5% car rental tax to Transportation rather than the GF, beginning in FY 2006.	(23.2)

Land Preservation Tax Credit: Strengthen appraisal process (SB 1139)	5.0
Change Enterprise Zone program from tax credit to grant (SB 983)	11.5
Sales tax on auto refinishing (HB 2762)	0.8
Investment in B-grade bonds (SB 932)	0.8
Miscellaneous legislative changes	<u>1.8</u>
<b>Total Adopted Adjustments</b>	<b>(\$302.7)</b>

- *Sales Tax on Food.* The 2004 General Assembly approved a phased reduction in the state portion of the sales tax on food, beginning in July 2005. The reduction was to occur in three ½ percent increments, at a cost of roughly \$50 million per ½ percent reduction. The adopted budget advances the entire 1 ½ percent reduction to July 2005, providing tax relief of roughly \$145 million in fiscal year 2006.
- *Accelerated Sales Tax Payment.* Since 2002, retail merchants with annual sales over \$1.3 million have been required to remit an estimate of their June sales tax liability early. The adopted budget eliminates the early payment in June 2006, for all merchants with sales under \$50.0 million and reduces the payment from 90 percent of estimated June liability to 20 percent of estimated liability for the roughly 220 merchants that remain. Language requires that the early payment be eliminated for these remaining merchants in fiscal year 2007.
- *Selective Deconformity.* Since 2001, Virginia has operated under moving fixed date conformity with federal tax law to allow for selective conformity with tax law changes passed by Congress. The adopted budget advances the date of conformity to December 31, 2004, thereby passing federal tax benefits to small businesses and individuals through increased business expensing allowances, teacher deductions up to \$250 for classroom expenses; and simplified tax filing measures.

- *Car Rental Tax.* The adopted budget redirects the three percent share of the vehicle rental tax that has been dedicated to the general fund since FY 2003 to transportation as a dedicated fund source for rail improvement. Prior to FY 2003, these revenues went to the DMV Special Fund. An additional one percent of the existing rental tax remains dedicated to the highway maintenance and operating fund.

**Transfers/Deposits to General Fund**

The adopted budget increases transfers/deposits to the general fund (including Lottery profits) by \$111.0 million. Lottery profits available to public education would increase by \$68.3 million over the biennium. Additional funds of \$10.0 million from ABC operations are included as a result of operating cost efficiencies.

The following table details transfer/deposit additions in the adopted budget.

<b>Additional Transfers/Deposits</b> (\$ in millions)	
Lottery profits	\$68.3
ABC profits increase from operating efficiencies	10.0
Increased Court debt collections	3.3
Increased proceeds from sale of ABC regional office	4.5
Correction of amount related to prior year action on VRS amortization period	6.9
Special Education Recovery Fund	3.3
Unobligated balance in Tax Public/Private Technology Partnership Fund	10.8
Out-of-state prisoner revenue	2.0
Miscellaneous other	<u>1.9</u>
<b>Total</b>	<b>\$111.0</b>