Resources

The budget, as introduced, includes a net increase of $1,204.2 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 of $323.8 million above the forecast; (2) a corresponding increase in the revenue base for the 2004-06 biennium; (3) continued economic expansion with moderate growth in the 5 percent to 6 percent range; and (4) a sizeable increase in the Lottery forecast.

General Fund Resources Available for Appropriation
(2004-06 biennium, $ in millions)

	Chapter 4	HB 1500/SB 700	Change
Available Balances	$272.9	$579.2	$306.3
Revenue Estimate	25,545.3	26,335.0	789.7
Transfers/Deposits:			
Lottery Proceeds Fund	797.0	865.3	68.3
Other Transfers	670.9	710.8	39.9
			108.2
Total GF Resources Available	**$27,286.1**	**$28,490.4**	**$1,204.2**

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 proposed against the balance include $10.2 million for natural disaster costs incurred since July 1, deficit loan authorizations for start-up costs of the Virginia Information Technologies Agency (VITA), and to offset a change in fund source for staff salaries in the Governor's and Cabinet Secretaries' offices, until proposed 2005 session amendments can be considered.

The remaining $306.3 million balance is applied toward required Rainy Day Fund and Water Quality Improvement Fund deposits and other budget items.

Proposed Adjustments to Balances
($ in millions)

FY 2004 Revenue Above Forecast/Agency Balances	**$403.2**
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	(10.2)
Deficit authorization for VITA start-up	(6.1)
Deficit authorization for Gov/Cabinet staff salaries	(2.3)
Federal Audit of Internal Service Funds	(0.3)
Miscellaneous other	0.5
Total Balance Adjustments	**$306.3**

Estimated Revenues

The introduced budget includes an upward revision of $917.0 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 6.1 percent in fiscal year 2005 and 5.4 percent in fiscal year 2006. (Revenue increased by 9.7 percent in fiscal year 2004).

Minor changes in projected rental income and prisoner revenue add $1.7 million, to produce a total projected increase in GF revenue of $918.7 million.

When tax policy changes approved in the 2004 session are taken into account, the revised GF growth rate is 8.3 percent in fiscal year 2005 and 5.1 percent in fiscal year 2006.

Changes in Major Tax Sources (November Forecast) ($ in millions)		
	FY 2005	**FY 2006**
Income Tax Withholding	$124.4	$166.3
Income Tax Non-withholding	2.9	(25.4)
Tax Refunds	(33.5)	(26.4)
Corporate	80.7	83.1
Sales Tax	85.7	136.2
Wills, Suits, & Deeds	143.7	104.1
Other Revenue	46.9	30.0
Total Economic-Driven Changes	**$450.8**	**$467.9**

Key assumptions underlying the revised forecast are (1) job growth of 2.4 percent each year, compared to 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.

Economic Variables Assumed in Forecast (November Forecast) (Percent Growth Over Prior Year)			
	Actual	**Forecast**	
	FY 04	**FY 05**	**FY 06**
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 introduced budget includes three proposed tax policy changes that would reduce GF revenue by $129.0 million, resulting in revised GF growth rates of 8.2 percent in fiscal year

2005 and 4.3 percent in fiscal year 2006. After incorporating tax policy changes, the net GF revenue change included in the introduced budget is $789.7 million.

Proposed tax policy changes are explained in greater detail below.

Proposed Tax Policy Changes
($ 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)
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)
Total Proposed Adjustments	**($129.0)**

– ***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 introduced budget assumes that legislation proposed during the 2005 session to advance the entire 1 ½ percent reduction to July 2005, will be approved.

– ***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 introduced budget assumes that legislation proposed during the 2005 session to advance the date of conformity to December 31, 2004, will be approved, 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 introduced budget proposes redirecting 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 introduced budget increases proposed transfers/deposits to the general fund (including Lottery profits) by $108.2 million. Lottery profits available to public education would increase by $68.3 million over the biennium (plus an additional $22.7 million included in the balance forward resulting from fiscal year 2004 activity). 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 proposed in the introduced budget.

Additional Transfers/Deposits ($ 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
Miscellaneous other	1.1
Total	**$108.2**

– *__Special Education Recovery Fund.__* In order for local school divisions to continue receiving federal Medicaid reimbursement for medical services provided to special education students, the Department of Education must become the fiscal agent for the school divisions. This is a pass-through amount that is offset by an increased appropriation of $3.3 million in the Department of Medical Assistance Services.