

Finance

The Governor's recommendations for the Office of the Secretary of Finance result in a net increase of \$221.4 million. These recommendations include the addition of \$234.1 million GF and \$20.1 million NGF for the biennium, and are offset by a recommended reduction of \$32.8 million GF from amended bond issuance schedules and debt refinancings.

Among the recommended amendments, the single largest general fund increase is \$229.4 million for deposit to the Revenue Stabilization Fund. This deposit represents both the mandatory deposit required by the Constitution and a "super-deposit" required when revenue growth exceeds certain statutory benchmarks. Other general fund spending items include: \$2.3 million to modify the Department of Taxation's computer systems to account for the additional revenues in HB 5018; \$1.4 million in additional funding for school efficiency reviews; \$422,259 for additional financial control positions within the Departments of Accounts and Treasury; \$157,500 for additional staff for the Department of Planning and Budget; and \$153,188 in additional funding for the Office of the Secretary of Finance.

In addition, about \$17.0 million NGF is included within a technical amendment to account for the completion of a public-private partnership responsible for the modernization of the Department of Taxation's information technology environment. This sum represents the final payments that must be made to the vendor responsible for the installation and testing of the agency's new computer hardware, software, and scanning equipment.

- **Secretary of Finance**
 - *Fully Budget Operating Expenses.* Provides \$16,588 GF the first year and \$136,000 GF the second year to accurately reflect the operating budget of the Office of the Secretary of Finance. This is a technical amendment to reflect recent findings by the Auditor of Public Accounts and is one of several affecting the Office of the Governor and the Cabinet Secretaries.

- **Department of Accounts**
 - *Provide Additional Staffing for Payroll Service Bureau.* Includes \$112,400 GF and two positions to assume the payroll functions of several new executive branch agencies.

- *Provide Additional Staffing to Strengthen Financial Controls.* Provides \$276,564 GF and four positions to re-establish the agency’s capability to audit decentralized executive branch agency cash disbursements and to augment the Division of the State Internal Auditor’s ability to conduct fraud, waste, and abuse investigations.
- *Transfer Information Technology Positions to Virginia Information Technologies Agency.* Transfers 11 positions in the second year from the Department of Accounts to the Virginia Information Technologies Agency (VITA) to further implement the technology consolidation previously approved by the General Assembly.
- *Distribution of Tax Amnesty Funds.* Language is included to ensure that any proceeds from tax amnesty that have been deposited to the general fund remain in the general fund regardless whether any portion of those proceeds could have been eligible for distribution to localities.

- **Department of Accounts Transfer Payments**

- *Rainy Day Fund Deposit.* Includes \$134.5 million GF the first year and \$94.9 million GF the second year for deposit to the Revenue Stabilization Fund. The first year amount represents a “super-deposit” to the Rainy Day Fund, as required by HB 1872, which was adopted by the 2003 Session of the General Assembly. This legislation requires that in addition to any mandatory deposit to the Rainy Day Fund, an additional sum equal to 25 percent of the mandatory deposit be made to the fund if certified tax collections exceed prior year collections by more than 8 percent and exceed the average collections for the past six years by 1.5 percent.

The amount included for the second year, \$94.9 million, represents the additional amount needed to satisfy the mandatory deposit to the Revenue Stabilization Fund required by Article X, Section 8 of the Constitution of Virginia. Although the total required deposit equals \$268.9 million, \$87.0 million was previously appropriated in Chapter 943, 2004 Acts of Assembly, and another \$87.0 million is included in Chapter 4, 2004 Acts of Assembly, Special Session I. Combined, these amounts represent the required deposits certified by the Auditor of Public Accounts.

- *Adjust Appropriation for Aid to Localities Program.* Includes \$200,000 GF in the second year for payments to localities. The

increase in these payments is based upon revised projections of the revenues to be collected from a variety of sources, most notably rolling stock taxes, which are divided between the state and localities.

- *Reporting of Certified Tax Collections by Auditor of Public Accounts.* Language is included to require the Auditor of Public Accounts to provide his report on certified tax collections to the General Assembly no later than November 1 of each year. This report is to include the amounts, if any, that must be deposited to the Revenue Stabilization Fund pursuant to Article X, Section 8 of the Constitution of Virginia, as well as any additional “super-deposits” that must be made in accordance with HB 1872, 2003 Acts of Assembly.
- **Department of Planning and Budget**
 - *Fund Additional School Efficiency Reviews and Contract Review.* Includes \$1.4 million GF and one position in the second year for the school efficiency review program. These general fund dollars will support the use of consultants to perform administrative reviews in as many as 10 school divisions. The additional position is designed to monitor the performance of the consultants to ensure they fulfill any contract requirements. The funding provided represents, in part, a transfer of general fund dollars originally appropriated to the Secretary of Education for this purpose.
 - *School Efficiency Review Reporting Requirements and Cost Recovery.* Language is provided to require that any school division undergoing an efficiency review report its progress in implementing the review’s recommendations to the Department of Planning and Budget. Should the local school division superintendent or his designee fail to certify that at least half of the review recommendations have been implemented, then up to 25 percent of the cost of the review may be recovered from the division.
 - *Add Funding for Entry-Level Analysts.* Includes \$157,500 GF the second year for the addition of three entry-level analyst positions.
 - *Transfer Information Technology Positions to Virginia Information Technologies Agency.* Transfers one position in the second year from the Department of Planning and Budget to the Virginia Information Technologies Agency (VITA) to further

implement the technology consolidation previously approved by the General Assembly.

- **Department of Taxation**

- ***Fund Tax Reform System Implementation Costs.*** Includes \$876,703 GF the first year and \$432,916 GF the second year to pay for changes to the agency's State Tax Accounting and Reporting System (STARS) to fully implement the tax provisions included in HB 5018.
- ***Administer Corporate Tax Changes Contained in Omnibus Tax Bill.*** Provides \$69,117 GF and nine positions the first year and \$478,888 GF and four additional positions the second year to hire audit staff to address both changes to the corporate tax structure and pass-through-entity filing requirements included in HB 5018.
- ***Administer Tobacco Tax Changes Contained in Omnibus Tax Bill.*** Includes \$86,888 GF and eight positions the first year and \$393,026 GF the second year to hire additional tobacco tax auditors. These auditors will be responsible for ensuring that the additional cigarette and other tobacco product tax revenues included in HB 5018 are collected.
- ***Realign Nongeneral Fund Appropriation for Partnership Project Payments.*** Provides \$14.6 million NGF the first year and \$2.4 million NGF the second year to complete the payments for contract deliverables required by the agency's public-private partnership agreement with CGI-AMS, its private sector partner.
- ***Transfer Excess Partnership Project Proceeds to General Fund.*** Includes a transfer of \$10.7 million NGF to the general fund representing proceeds of the Technology Partnership Fund above those necessary to complete payment to the agency's private sector partner for contract deliverables. This transfer is located in Part 3 of the Appropriation Act.
- ***Expand Authority for Use of Contract Collector Fund.*** Includes \$2.0 million NGF in the second year for the use of consultants to assess the department's current collection strategies and to develop and test new strategies for improving tax collections. The Contract Collector Fund consists of the Commonwealth's share of delinquent accounts collected by private collection agencies.

- *Restore Positions for Tax Compliance.* Restores 12 positions in the first year for the agency’s tax compliance program. The costs for these positions will be absorbed by the agency.
 - *Transfer Information Technology Positions to Virginia Information Technologies Agency.* Transfers 32 positions in the second year from the Department of Taxation to the Virginia Information Technologies Agency (VITA) to further implement the technology consolidation previously approved by the General Assembly.
 - *Compensation for Participation in Federal Contract Sales and Use Tax Study.* Language provides for the continuation of a study concerning the potential revenue impact and administrative costs related to the extension of sales and use taxes to federal government contracts. Business entities that agree to participate in this audit examination according to the terms and conditions established by the department shall be entitled to compensation if these entities begin participation before January 15, 2005. The language also permits the Governor to spend up to \$500,000 from the unappropriated balances included in the Appropriation Act for the compensation of these participating business entities.
- **Department of the Treasury**
 - *Increase Unclaimed Property Division Staff.* Includes \$151,131 NGF and three positions in the second year to assist with the administration, accounting, and claims processing of unclaimed property. Unclaimed property is remitted to the department by banks and other financial institutions when the owner of that property cannot be located. The source of the nongeneral fund revenue for these positions is the proceeds from the disposition of certain unclaimed property accounts.
 - *Add Internal Auditor Position.* Provides \$35,295 GF and \$33,295 NGF and one position for an additional internal auditor. This position was originally eliminated during the budget reductions approved by the Governor in FY 2003. Since the elimination of this position, the agency reports that internal audits of its high-risk operations cannot be completed each year. These high-risk areas include large volumes of wire transfers involving the Commonwealth’s investment portfolio, the printing and mailing of more than 10 million checks annually, and the issuance of debt for state agencies and institutions of higher education.

- *Defray Agency Costs for Safekeeping of Collateral Securities.* Includes \$351,000 NGF the first year and \$601,500 NGF the second year, reflecting the amounts of nongeneral fund revenue the agency could collect if proposed legislative adjustments are approved by the General Assembly. The department contracts with private banks to safeguard insurance company collateral payments and to perform custodial services. These banks have raised the fees charged for this service in excess of the amounts that the agency can currently collect to pay for these services.
- *Transfer Information Technology Positions to Virginia Information Technologies Agency.* Transfers two positions in the second year from the Department of the Treasury to the Virginia Information Technologies Agency (VITA) to further implement the technology consolidation previously approved by the General Assembly.
- **Treasury Board**
 - *Amend Debt Service Needs for Bond Issues.* A reduction of \$16.3 million GF the first year and \$16.5 million GF the second year reflecting changes in the draw schedules for previously authorized capital projects and the refinancing of outstanding debt in order to capitalize on lower interest rates.
 - *Increase Debt Ceiling for Outstanding Virginia Public Building Authority Bonds.* Language is included to increase the total authorized outstanding principal amount of Virginia Public Building Authority bonds from \$1.3 billion to \$1.6 billion. This increase was attributed to the need for the issuance of previously authorized bonds.