

Resources

The Governor's proposed 2006-08 budget includes \$34.4 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation (2006-08 biennium, \$ in millions)	
Beginning Balance	\$1,242.4
Adjustments to the Balance	(1.0)
Official GF Revenue Estimate	31,615.7
Transfers	<u>1,562.2</u>
GF Resources Available for Appropriation	\$34,419.3

Available Balance

The budget, as introduced, includes \$1,242.4 million as a projected unspent balance at the end of the 2004-06 biennium. This balance results from the ripple effect of a \$544.6 million revenue surplus in FY 2005 related primarily to three sources (non-withholding, corporate and deed recording tax), and the expectation that these three sources will continue to experience healthy growth in FY 2006.

Economic Projections

The 2006-08 general fund revenue forecast assumes growth rates of 6.0 percent for FY 2007 and 5.3 percent for FY 2008, resulting in projected collections of \$31,615.7 million. The forecast assumes that job growth will be slightly below long-term trends as the combined stimulus from federal defense/Homeland Security spending and an exceptional housing market in Northern Virginia softens. The forecast assumes that income and wage/salary growth will mirror long-term trend growth in the range of 6.0 to 6.5 percent.

Growth is expected to moderate in the three volatile revenue sources that generated the majority of revenue adjustments in the 2004-06 biennium (non-withholding, corporate and deed recording tax) as (1) abnormal activity related to federal tax law changes and one-time events like the \$32 billion Microsoft

dividend is not replicated, (2) corporations increase spending for capital investments and operating costs, and (3) the housing market cools.

The slowing housing market, coupled with higher interest rates, is also expected to dampen consumer spending and related retail sales tax as fewer cash-out refinancings occur.

Economic Variables Assumed In Forecast				
Percent Growth Over Prior Year				
(December Forecast)				
	<u>FY 2007</u>		<u>FY 2008</u>	
	<u>VA</u>	<u>U.S.</u>	<u>VA</u>	<u>U.S.</u>
Employment	1.7%	1.4%	1.6%	1.3%
Personal Income	6.5%	6.4%	6.0%	5.8%
Wages & Salaries	6.4%	6.0%	6.0%	5.8%

Economic Forecast of General Fund Revenues				
Projected Growth				
(2006-08 biennium, \$ in millions)				
	<u>FY 2007</u>	<u>% Growth</u>	<u>FY 2008</u>	<u>% Growth</u>
Net Individual	\$9,610.4	5.9%	\$10,159.8	5.7%
Corporate	746.5	3.3%	795.9	6.6%
Sales	3,150.3	12.0%*	3,310.1	5.1%
Insurance	416.4	6.1%	440.2	5.7%
Recordation	659.0	(14.6)%	665.0	0.9%
All Other	<u>818.7</u>	8.5%	<u>843.4</u>	3.0%
Total Revenues	\$15,401.3	6.0%	\$16,214.4	5.3%

*Growth rate is artificially inflated due to elimination of most accelerated sales tax collections in FY 2006.

Impact of Policy Changes on Revenue Estimates

In addition to economic variables, the revenue estimate is affected by several policy changes: (1) a reduction of \$2.6 million per year from moving the date of conformity with federal tax law from December 2004 to December 2005 (separate legislation will be introduced); (2) a reduction of \$16.6 million over the biennium by allowing higher education institutions to retain interest earnings on sponsored research funds; and (3) the addition of \$15.8 million in tax compliance revenues from adding 10 additional staff at the Department of Taxation.

The introduced budget does not honor a directive of the 2005 General Assembly to eliminate the remaining accelerated sales tax collections for the largest retailers, with the related \$27.0 million reduction in revenue.

Transfers

Proposed transfers to the general fund increase total available resources by \$1.56 billion. Of this amount, \$852.2 million represents the transfer of lottery profits estimated at \$426.1 million in each year, or a projected reduction of \$15.7 million per year related to initiation of a North Carolina lottery, and \$468.5 million from the 1/4th cent sales tax that is transferred from the Local Real Estate/SOQ Fund for public education.

Other customary transfers include ABC profits of \$47.4 million for the biennium, with an additional \$64.1 million in the first year and \$65.4 million in the second year of ABC profits and \$9.9 million per year of wine tax profits going to the Department of MHMRSAS for substance abuse programs.

The introduced budget reduces general fund reliance on (1) targeted NGF savings, (2) uninsured motorist fees, (3) ABC across-the-board reductions, (4) additional funding from \$4 for life, and (5) vital records fee increase, over the course of the biennium, by transferring 50 percent of the identified amounts to the general fund in the first year and eliminating the transfer altogether in the second year. Transfers would be reduced by \$12.4 million in the first year and \$24.3 million in the second year from this action.

Uninsured motorist fees of \$3.2 million in the first year and \$6.4 million in the second year, no longer transferred to the general fund, would be diverted to DMV for computer system upgrades, rather than remaining with the State Corporation Commission.

HB/SB 30 assumes the continued transfer to the general fund of \$10.0 million per year from DMV VIPNet fees.

Proposed Transfers in HB/SB 30, As Introduced	
Lottery Profits	\$852.2
1/4 cent Sales Tax - Local Real Estate/SOQ Fund	468.5
ABC/Wine to Dept. MHMRSAS for Substance Abuse	149.2
ABC Profits	47.4
Un-refunded Marine Fuels Tax	14.8
Sales Tax Compliance & Indirect Cost Recoveries	32.3
Court Debt Collections	3.9
Targeted NGF Reductions	5.2
ABC Across-the-Board Reductions	1.3
VITA Savings	6.9
IDEA Funds	11.0
Uninsured Motorist Fees	3.2
Transfer Sales Tax to Game Protection Fund	(32.9)
Transfer to Children's Health Program	(28.1)
Miscellaneous Other	7.3
Continue to Transfer DMV VIPNet Fees	<u>20.0</u>
Total	\$1,562.2