

Proposed Amendments for the 2012-14 Budget

The proposed amendments to the 2012-14 budget (HB 1500/SB 800) include \$219.6 million in general fund resources above those assumed in Chapter 3 of the 2012 Acts of Assembly, Special Session I. These resources include: (1) a net balance addition of \$102.1 million; (2) a \$98.7 million upward revision to the general fund revenue forecast, including proposed tax policy actions; and (3) transfer additions of \$18.8 million. These changes total \$219.6 million and, when combined with the \$6.3 million unappropriated balance contained in Chapter 3, provide \$225.9 million in total additional resources.

Additional General Fund Resources Available for Appropriation			
(\$ in millions)			
	<u>Chapter 3</u>	<u>Revised</u>	<u>Difference</u>
Unrestricted Balance (June 30, 2012)	\$675.5	\$976.0	\$300.5
Balance Adjustments	7.0	(191.4)	<u>(198.4)</u>
Net Balance Addition			\$102.1
Revenue Estimate*	\$33,354.9	\$33,453.5	\$ 98.7
FY 2013-14 Transfers	811.9	830.7	<u>18.8</u>
Additional GF Resources			\$219.6
Unappropriated Balance (Ch. 3)			<u>\$ 6.3</u>
HB 1500/SB 800 Resources			\$225.9

**Including proposed policy adjustments.*

Net Balance

After a recommended re-appropriation of \$139.2 million in FY 2012 unspent capital, mandatory, and discretionary agency balances, HB 1500/SB 800 includes a net GF balance addition of \$102.1 million beyond that anticipated and captured in Chapter 3.

From this amount, \$78.2 million is set aside to supplement the Chapter 3 appropriation for the mandatory FY 2014 deposit to the Rainy Day Fund, (based on FY 2012 final revenue collections) and \$16.9 million is carried forward into FY 2013 for appropriation to the Water Quality Improvement Fund (represents 10 percent of FY 2012 revenue surplus and unobligated balance). The remaining net balance of \$6.9 million is available for appropriation.

Changes in Revenue

Upward adjustments to the 2012-14 biennial revenue forecast total \$185.9 million resulting from the ripple effect of collections above the estimate in FY 2012, offset by a slight softening of the biennial economic growth rate assumed in Chapter 3. Specifically, HB 1500/

SB 800 assumes “economic” growth of 3.6 percent and 4.2 percent respectively for FY 2013 and FY 2014, rather than the 3.7 percent and 4.5 percent rates approved last session. Year-to-date revenue growth through November is 3.2 percent. Adjusting for last year’s change in the accelerated sales tax policy (AST) which causes growth to be overstated, year-to-date growth is 2.6 percent, against the December AST-adjusted forecast of 3.4 percent.

The introduced budget contains five primary policy adjustments that would reduce the revenue forecast by a total of \$87.1 million, including:

- 1) Increase the existing sales tax dedicated to transportation from 0.5 percent to 0.55 percent in FY 2014 at a cost of \$48.1 million in FY 2014;
- 2) Further reduce the number of retailers required to make an accelerated sales tax payment in June 2014, by raising the threshold to \$48.5 million in annual sales resulting in a loss of \$20.8 million in FY 2014;
- 3) Advance federal tax conformity to December 31, 2012, thereby extending enhanced treatment for Earned Income Tax Credit, reducing revenue by \$7.0 million in FY 2013;
- 4) Begin a three-year phase-out of policy to retain interest earnings on certain non-general fund accounts totaling \$3.8 million in FY 2014; and
- 5) Reduce the anticipated proceeds from the sale of Brunswick correctional facility by \$10.0 million in the second year.

When proposed tax policy change and technical adjustments are included, the projected biennial growth rates are 3.6 percent and 3.8 percent respectively.

Change in GF Taxes by Source (\$ in millions)				
	Estimated FY 13	Estimated % Growth	Estimated FY 14	Estimated % Growth
Net Individual	\$181.1	4.5%	\$156.1	4.7%
Corporate	(65.1)	(4.5)%	(67.4)	2.3%
Sales	40.9	4.1%	(28.0)	1.7%
Insurance	(38.0)	1.1%	(33.8)	7.1%
Recordation	13.6	4.5%	13.6	0.0%
All Other	(29.1)	(2.2)%	(45.1)	1.6%
Total Revenues	\$103.4	3.6%	(\$4.6)	3.8%

Changes in Transfers

Proposed transfer additions of \$18.8 million in HB 1500/SB 800 primarily reflect better than projected ABC Sunday sales, technical adjustments to reduce the ¼ cent sales tax transferred for K-12, and increased nongeneral fund cash balances.

General Fund Resource Changes Since 2012 Session
(\$ in millions)

	<u>2012-14</u>
Balance Adjustments:	
Unrestricted Fund Balance, Comptroller's August Report	\$976.0
Amount Anticipated in Chapter 3, June 30, 2012	<u>675.5</u>
Change in June 30, 2012 Unrestricted Balance	\$300.5
Add: Rainy Day Fund Reserve, FY 2013 (Chapter 3)	132.7
Rainy Day Fund Reserve, FY 2014 (Chapter 3)	166.4
Rainy Day Fund Supplement, FY 2014	78.2
Less: Contingent Employee 3% Bonus, December 2012	(77.2)
FACT Fund Reappropriation	(30.0)
Natural Disaster Reserve (sum sufficient)	(29.9)
Virginia Health Care Fund (NGF)	(65.3)
Local Communications Sales & Use Tax (NGF)	(40.3)
Central Capital Planning Fund (NGF)	(2.0)
Other NGFs	(170.3)
TTF Share of Accelerated Sales Tax	(20.9)
Restore Judgeship Vacancy Savings	(0.7)
Re-appropriated Capital and Operating Balances	<u>(139.1)</u>
Total Net Balance Adjustments	\$102.1
Revenue Amendments:	
December Tax Re-forecast	\$185.9
Increase Sales Tax Dedicated to Transportation from .5 to .55	(48.1)
3rd Step of Accelerated Sales Tax Reversal (June 2014)	(20.8)
Reduce Estimated Proceeds from Sale of Brunswick	(10.0)
Extend Enhanced EITC to Tax Year 2012	(7.0)
Begin 3-Step Phase-out of Retained NGF Interest Earnings	(3.8)
DOA Small Purchase Charge Card Rebate	3.0
Miscellaneous	<u>(0.5)</u>
Total Revenue Adjustments	\$98.7
Transfers:	
ABC Profits - Sunday Sales	\$17.5
Local Real Estate/SOQ Fund (sales tax reforecast)	(7.9)
Sales Tax Transfer to Game Protection Fund	(1.4)
Increased Proceeds from Sale of Alexandria ABC Office	1.5
Court Debt Collections	1.1
SCC and Other NGF Cash Balances	8.3
Miscellaneous	<u>(0.3)</u>
Total Transfer Adjustments	\$18.8