Summary of
2014-16 Budget Actions

Chapter 3

Introduced as HB 5010

2014 Special Session I

Overview of Amendments to the 2014-16 Biennial Budget Chapter 3 (HB 5010), 2014 Special Session I

Chapter 2 of the 2014 Special Session I Acts of Assembly (HB 5002), the 2014-16 biennial budget bill that was adopted in June, 2014, addressed an anticipated budget shortfall of about $1.55 billion over the three-year period of FY 2014 through FY 2016. The budget assumed an FY 2014 shortfall of $350.0 million, due in large part to taxpayer behavior on non-withholding/estimated payments, and a predicted negative impact on revenues of $600.0 million in both FY 2015 and FY 2016 resulting from a lower revenue base, as well as reductions to the withholding forecast.

Because the "caboose" bill that amended the 2012-14 budget (Chapter 1 of the 2014 Special Session I Acts of Assembly (HB 5001)) had already been adopted, the entire three-year estimated shortfall was programmed into Chapter 2. Chapter 2 included a reserve of $842.5 million and anticipated the use of approximately $707.5 million in balances in the Rainy Day Fund to close the remaining gap. Although Chapter 2 reduced appropriations to address the shortfall, the budget did not include an explicit adjustment to the revenue forecast pending the official revenue re-forecast post-June 30th, 2014.

Following the preliminary close of FY 2014, Governor McAuliffe reported that FY 2014 had ended with a revenue/transfer shortfall of $437.8 million. This shortfall reflected a resource contraction of 0.9 percent -- a forecast variance of 2.5 percent -- which triggered the *Code*-mandated reforecasting process. On August 15, 2014, Governor McAuliffe presented a revised revenue forecast to the Joint Money Committees based on the recommendations of the Joint Advisory Board of Economists (GABE) and the Governor's Advisory Council on Revenue Estimates (GACRE).

After the Joint Meeting on August 15th, the Chairmen of the House Appropriations and Senate Finance Committees began working with the Governor's office to develop an interim budget to address the shortfall, and on September 18, 2014, the General Assembly considered and adopted Chapter 3 of the 2014 Special Session I Acts of Assembly (HB 5010), which closes the additional budgetary shortfall of $881.5 million. The General Assembly subsequently met on November 10, 2014 and passed a substitute for Chapter 3 that reversed one of the planned budget shortfall strategies. The bill was signed by the Governor on November 14, 2014.

August 2014 Interim Revenue Forecast

The August 2014 forecast is significantly lower than anticipated in Chapter 2, and assumes general fund revenue growth of 2.7 percent in each year of the biennium, reduced from 5.2 percent in FY 2015 and 4.1 percent in FY 2016. The interim forecast, outlined below, reflects the impacts of the FY 2014 shortfall and continued sluggish job and wage/salary growth, especially in Northern Virginia.

August 2014 General Fund Revenue Forecast for FY 2014-16 Biennium

($ in millions)

Source	FY 2015		FY 2015 Forecast		FY 2016		FY 2016 Forecast	
	Ch. 2 Forecast	Interim Forecast	Ch. 2 Forecast	Interim Forecast	Ch. 2 Forecast	Interim Forecast	Ch. 2 Forecast	Interim Forecast
Withholding	4.5%	2.7%	$11,025.6	$10,770.3	4.3%	3.1%	$11,504.6	$11,100.5
Nonwithholding	9.7%	6.3%	3,209.3	2,685.2	6.0%	2.3%	3,401.6	2,747.3
Refunds	4.3%	3.6%	(1,885.0)	(1,819.0)	4.2%	3.6%	(1,965.0)	(1,884.5)
Sales	4.3%	2.8%	3,211.4	3,152.5	2.9%	3.6%	3,303.5	3,265.5
Corporate	6.1%	-2.5%	816.6	738.9	1.4%	0.7%	827.7	744.2
Recordation	0.0%	1.2%	377.5	314.5	0.0%	0.0%	377.5	314.5
Insurance	0.5%	7.5%	290.9	344.4	4.2%	-4.1%	303.1	330.2
All Other	1.7%	-3.9%	675.6	675.6	3.0%	3.0%	695.6	695.6
Total GF	5.2%	2.7%	**$17,721.9**	**$16,862.4**	4.1%	2.7%	**$18,448.6**	**$17,313.3**
Shortfall Compared to Official Forecast				**($859.5)**				**($1,135.3)**

Note: Subsequent to development of the Interim Forecast, $12.0 million in FY 2015 and $4.0 million in FY 2016 was identified as additional revenue from federal debt set-off efforts; these amounts are included in Chapter 3.

Shortfall Addressed in Chapter 3 (HB 5010)

In addition to the forecast reductions, Chapter 3 addressed the reduced carry-forward balance from FY 2014. Based on actual collections, the balance available was only $40.8 million, or $437.8 million less than planned in Chapter 2. When this amount is included, the additional biennial deficit was about $881.5 million more than anticipated in June.

($ in Millions)	FY 2015	FY 2016	Total
Chapter 2 Revenue Estimates	$17,721.9	$18,448.6	$36,170.5
Interim Revenue Reforecast	16,862.4	17,313.3	34,175.7
Difference	(859.5)	(1,135.3)	(1,994.8)
FY 2014 Revenue Shortfall	(437.8)	0.0	(437.8)
Total Shortfall	**($1,297.3)**	**($1,135.3)**	**($2,432.6)**
Ch. 2 Appropriated Reserves	481.8	364.3	846.1
Anticipated Rainy Day Fund Withdrawal	470.0	235.0	705.0
Remaining Shortfall Addressed in Chapter 3	**($345.5)**	**($536.0)**	**($881.5)**

Provisions of Chapter 3

Chapter 3 amends and reenacts Chapter 2, as adopted in June. With the exception of the new sections added (outlined below), all other provisions of Chapter 2 are unchanged. When the Governor introduces his proposed amendments in December, actions taken in Chapter 3 will be reflected in the revised budget bill. Chapter 3 appropriates $470.0 million in FY 2015 and $235.0 million in FY 2016 from the Rainy Day Fund. It also takes action to close the remaining budget shortfall through the establishment of four reversion accounts and the identification of agency balances and nongeneral fund transfers to offset general fund shortfalls.

Chapter 3 Actions (GF $ in millions)	FY 2015	FY 2016
Front Page Resource Adjustments (balances, reversions, transfers, etc.)	$219.1	$48.0
Reversion Accounts:		
State Agency Reversion Account	$92.4	$100.0
Higher Education Reversion Account	45.0	45.0
Aid to Local Government Reversion Account	30.0	30.0
Miscellaneous Reversion Clearing Account	0.00	272.0
Total	**$386.5**	**$495.0**

Chapter 3 adds four new items to Central Appropriations for the new reversion accounts. The first, Item 471.10, contains state agency reductions of $92.4 million in FY 2015 and $100.0 million in FY 2016 – approximately 4 percent each year. The target is not agency-specific, and the Governor has latitude to achieve the necessary savings within the confines of the agency plans, subject to the limitations of Item 4-1.02 of the budget. This language provides that the Governor can reduce spending in any one agency or program by no more than 15 percent, and prohibits any reduction to retirement system contributions. The Governor requested each agency to plan for 5 percent reductions in FY 2015 and 7 percent reductions in FY 2016 and to submit those plans to the Department of Planning and Budget by September 19, 2014. These plans form the basis of the agency reductions.

The second reversion account, Item 471.20, contains higher education reductions of $45.0 million each year. Reductions are to be taken against instructional programs only and exempts research, financial aid, Cooperative Extension and the Virginia Institute for Marine Science from the calculation. The institution reductions are not applied in an "an across-the-board" fashion. Instead, each institution's target reflects the individual institution's in-state/out-of-state mix and revenue capacity. Language states that, consistent with the Governor's guidance, it is the intent of the General Assembly that the institutions achieve savings through productivity and operating efficiencies and not through mid-year rate increases. Chapter 3 also repeals Paragraph K. of Item 468, which set aside a $20.0 million reserve for higher education. Instead, this funding was used to help close the budgetary shortfall.

The third reversion account, Item 471.30, contains savings from state aid to local governments of $30.0 million each year. Overall, aid to localities makes up almost half of the budget. As such, $30.0 million equates to less than 0.3 percent of total local aid. Localities will be given the flexibility to identify which programs to reduce to achieve their respective targets, which are based on each locality's pro rata share of total state aid, excluding direct aid to public education and car tax reimbursements. This strategy was first used in the 2008-10 biennium and continued through FY 2013.

The last reversion clearing account, Item 471.40, Miscellaneous Reversion Account, contains a series of balance reversions, transfers and other actions, including $159.3 million from unobligated agency balances. Also included are savings of $43.1 million in direct aid to public education, reflecting the use of unanticipated lottery and literary fund revenues to supplant general fund appropriations and debt service savings totaling $26.2 million over the biennium from bond refinancings.

Item 471.40, D. appropriates an additional $5.7 million in FY 2015 and $10.1 million in FY 2016 to provide funding to fill 36 additional judgeships, effective December 1, 2014. Because of the delay in filling the judgeships, this action results in $3.2 million of savings compared to Chapter 2.

Item 471.40, G. authorizes the Governor to reallocate up to $5.0 million each year from economic development appropriations to other economic development programs that enhance job creation. These provisions do not impact overall funding levels for these activities, and the Governor must submit notice of intent to the General Assembly five days prior to any such action.

Language is included authorizing transfers from the Rainy Day Fund totaling $705.0 million over the biennium, pending certification by the Auditor of Public Accounts that the withdrawals are supported by actual revenue collections.

Lastly, an item in the Miscellaneous Reversion Account directs the Governor to develop budget reduction plans and other strategies for submission to the 2015 General Assembly to address the remaining FY 2016 shortfall of $272.0 million not otherwise addressed in Chapter 3. These plans are to be developed consistent with the provisions of § 2.2-1509, *Code of Virginia,* and must take into account any further changes to the revenue assumptions that occur as part of the annual reforecasting process undertaken pursuant to § 2.2-1503, *Code of Virginia*.