Resources

Chapter 2 of the 2014 Special Session I Acts of Assembly (HB 5002), the 2014-16 biennial budget, includes $37.9 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation
(2014-16 biennium, $ in millions)

Beginning Balance	$ 478.6
Adjustments to the Balance*	143.8
Official GF Revenue Estimate	36,170.5
Transfers	1,140.2
GF Resources Available for Appropriation	**$37,933.1**

**Reflects Governor's veto of FACT fund balance reversion*

Available Balance

Chapter 2 includes $478.6 million as a projected unspent balance at the end of the 2012-14 biennium. This beginning balance results primarily from an FY 2013 revenue surplus of $264.3 million of which $243.2 million was reserved for the FY 2015 required deposit to the Rainy Day Fund. The balance also includes net spending reductions of $280.9 million as provided in Chapter 1 of the 2014 Special Session I Acts of Assembly (HB 5001), the amended 2012-14 budget. However, this amount will likely be significantly lower due to an anticipated revenue shortfall in FY 2014 (see discussion below).

A balance adjustment of $95.0 million carries forward the amount appropriated by the General Assembly in Chapter 806 of the 2013 Acts of Assembly (HB 1500) as an advance Rainy Day Fund reserve to be used to offset the deposit required in FY 2015.

Planned balance reversions to the general fund include $32.7 million of capital projects that will be converted to bonded debt, and an anticipated $14.0 million in agency balances. The budget as it passed the General Assembly on June 12, 2014 also reverted to the general fund $4.4 million in balances from the FACT Fund in FY 2015. However, this item was vetoed by the Governor.

Economic Projections

The 2014-16 general fund revenue forecast included in the budget as introduced assumed "economic" growth rates of 4.1 percent for FY 2015 and 4.0 percent for FY 2016. After proposed tax policy changes and technical adjustments, estimated growth rates for the two years were projected to be 4.2 percent and 3.9 percent respectively, resulting in projected collections of $17,686.1 million in FY 2015 and $18,373.3 million in FY 2016. The forecast assumed that growth would remain sluggish and Virginia would underperform the nation as the impact of federal budget actions dampen the Virginia economy due to the large military presence and heavy reliance on federal procurement spending.

As part of the February mid-session reforecast, based on collections to date through January, 2014, the forecasts for FY 2014 and FY 2015 were revised downward. The official forecast in Chapter 1 reflects a downward revision of $125.0 million in FY 2014. The official forecast for FY 2015 was lowered by $15.0 million. No change was recommended for FY 2016. Based on all actions included in Chapter 2, the official growth rate in FY 2015 was modified to 5.2 percent and 4.1 percent in FY 2016.

In early June, 2014, the Secretary of Finance cautioned that FY 2014 revenues might not meet the revised forecast. Based on lower nonwitholding/estimated payments collections, it appeared that FY 2014 was likely to fall short of the forecast by about $350.0 million. As a result of the lower FY 2014 base and assumed reductions in growth rates for FY 2015 and FY 2016, the revenue projections would likely need to be lowered by approximately $600.0 million in each year of the new biennium. However, the official forecast adopted in Chapter 2 on June 12, 2014 does not reflect these adjustments, pending an official revenue re-forecast post-June 30th. Instead, a Central Account reserve was put in place to reflect potential spending cuts of $480.0 million in FY 2015 and $362.5 million in FY 2016. These amounts, in combination with potential withdrawals from the Rainy Day Fund, would help cover most of the revenue shortfall in the next biennium.

Economic Variables Assumed In Forecast
Percent Growth Over Prior Year
(December Forecast)

	FY 2015		FY 2016	
	VA	**U.S.**	**VA**	**U.S.**
Employment	1.6%	1.8%	1.7%	1.8%
Personal Income	4.4%	4.9%	4.4%	5.0%
Wages & Salaries	4.2%	5.0%	4.2%	5.1%

Forecast of General Fund Revenues Projected Growth
Incorporates February, 2014 Re-forecast
and 2014 Tax Policy Changes
(2014-16 biennium, $ in millions)

	FY 2015	**% Growth**	**FY 2016**	**% Growth**
Net Individual	$12,349.8	5.8%	$12,941.2	4.8%
Corporate	816.6	6.1%	827.7	1.4%
Sales	3,211.4	4.3%	3,303.5	2.9%
Insurance	290.9	0.5%	303.1	4.2%
Recordation	377.5	0.0%	377.5	0.0%
All Other	675.7	1.7%	695.6	2.1%
Total Revenues	**$17,721.9**	**5.2%**	**$18,448.6**	**4.1%**

Tax Policy Changes Assumed in Revenue Forecast

A net $94.0 million in additional revenue is assumed in the forecast, based on adopted tax policy changes, as shown below.

Adopted Tax Policy Changes	FY 2015	FY 2016	Biennial
Tax Compliance Initiatives	$15.8	$19.5	$35.3
Delay Phase-out of Diversion of NGF Interest	11.4	11.4	22.8
Accelerated Sales Tax – Add Additional Merchants to Requirement; Delay Phase-out	20.8	0.0	20.8
Sales Tax on Satellite TV Equipment (SB 100, 2014)	9.6	9.6	19.2
Sale of Brunswick Correctional Center	0.0	10.0	10.0
Firearms Transaction Fee – Reclassify from Transfer to Revenue	0.9	0.9	1.8
Change to Motion Picture Tax Credit (HB 460, 2014)	(4.0)	(4.0)	(8.0)
Increase Neighborhood Assistance Act Credit Caps	(1.0)	(2.0)	(3.0)
R&D Tax Credit (SB 623/HB 1220, 2014)	(1.0)	(1.0)	(2.0)
Miscellaneous	(1.4)	(1.5)	(2.9)
Total Tax Policy Changes	**$51.1**	**$42.9**	**$94.0**

The biennial budget, as introduced, proposed the next step in phasing out the Accelerated Sales Tax that would have eliminated the requirement for all except the 75 largest merchants (99 percent of merchants would have been exempted from the requirement). This action would have reduced GF revenues by $29.9 million in FY 2016. However, due to the anticipated downward adjustments to the 2014-16 revenue forecast, this action was not adopted in Chapter 2. In addition, some retailers who were exempt in 2014 will be required to remit in June of 2015, generating one-time revenue of $20.8 million.

The credit caps for the Social Services and Education components of the Neighborhood Assistance Act were each increased by $500,000 in FY 2015 and $1.0 million in FY 2016 to recognize the increasing number of organizations requesting credit allocations. This action increases the overall cap to $16.0 million in FY 2015 and $17.0 million in FY 2017.

Ten additional tax compliance auditors would be added at the Department of Taxation, at a biennial cost of $1.46 million, to generate $10.0 million of additional in-house collections per year. Other compliance efforts generate an additional $15.0 million over the biennium.

Impact of Prior Year Tax Policy Changes on Revenue Forecast

In addition to tax policy changes being adopted in the 2014 Session, the revenue forecast is impacted by tax policy adjustments adopted in *prior* years but phased-in over a multi-year period. The three largest items impacting general fund resources in the FY 2014-16 biennium are: 1) phase-in of the single sales factor apportionment for manufacturers (Chapter 821 of the

2009 Acts of Assembly (HB 2437)); 2) phase-in of the education scholarship fund tax credit (Chapter 842 (HB 321) and Chapter 731 (SB131) of the 2012 Acts of Assembly)); and 3) transfer of additional sales tax revenues to transportation (Chapter 766 of the 2013 Acts of Assembly (HB 2313)). In combination, these three policies reduce available GF revenues by $220.1 million over the biennium compared to the FY 2014 base. The individual adjustments are outlined in the table below.

Adopted Tax Policy Changes	FY 2015	FY 2016	Biennial
Single Sales Factor Apportionment (HB 2437, 2009)	($40.1)	($39.8)	($79.9)
Educational Scholarships Tax Credit (HB 321/SB 131, 2012)	(10.0)	(10.0)	(20.0)
Transfer Additional Sales Tax to Transportation (HB 2313, 2013)*	(50.9)	($54.3)	(105.2)
Total Tax Policy Changes	**($101.0)**	**($104.1)**	**($205.1)**

**See Transfers for additional detail on this tax policy change.*

Note: Amounts listed are incremental compared to FY 2014. Also assumes federal Marketplace Fairness Act not adopted prior to January 1, 2015.

Transfers

Transfers to the general fund increase total available resources by $1,140.2 million over the biennium. Of this amount, $713.5 million represents the 0.375 percent sales tax that is transferred from the Local Real Estate/SOQ Fund for public education.

Other customary transfers include ABC profits of $153.0 million for the biennium, with an additional $130.7 million of ABC profits and $18.3 million of spirit taxes going to the Department of Behavioral Health and Developmental Services (DBHDS) for substance abuse programs.

Chapter 2 directs the transfer of $31.1 million in balances remaining from a $500.0 million general fund deposit to the Transportation Partnership Opportunity Fund back to the general fund. In addition, the direction of $30.0 million in sales tax to transportation, as set forth in Chapter 766 of the 2013 Acts of Assembly (HB 2313) is deferred in FY 2015, and repaid in FY 2016.

Transfers in Ch. 2, as Enacted

.0375 percent Sales Tax - Local Real Estate/SOQ Fund	$713.5
ABC Profits	153.0
ABC/Wine to DBHDS for Substance Abuse	149.0
GF Balance in Trans. Partnership Opportunity Fund	31.1
Sales Tax Compliance & Indirect Cost Recoveries	30.3
Vehicle registration fee-Increase $4 for Life	21.0
Driver License Reinstatement-Trauma Center Fund	18.1
Unrefunded Marine Fuels Tax	14.8
Uninsured Motorist Fees	14.8
IDEA Funds	13.0
Sale of Alexandria ABC Office (moved from FY 2014)	12.5
Court Debt Collections	9.2
SCC Balances	6.0
ABC Operating Efficiencies	3.1
Transfer Sales Tax to Game Protection Fund	(24.3)
Transfer to Children's Health Program	(28.1)
Miscellaneous Other	3.2
Total	**$1,140.2**