Resources

The proposed 2016-18 budget includes $40.7 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation (2016-18 biennium, $ in millions)	
Beginning Balance	$ 426.0
Adjustments to the Balance	666.3
Official GF Revenue Estimate	38,411.8
Transfers	1,154.3
GF Resources Available for Appropriation	**$40,658.3**

Available Balance

The budget, as introduced, includes a projected beginning balance of $426.0 million at the close of the 2014-16 biennium. This beginning balance results from the significant FY 2016 revenue forecast adjustment, offset by the proposed spending included in HB/SB 29.

The $666.3 million adjustment to the balance reflects the appropriation of balances from the FY 2015 revenue surplus set aside for the Constitutionally required deposit to the Rainy Day Fund of $605.6 million, which is appropriated to the Fund in FY 2017. Balance adjustments also include $55.0 million for the "Part A" deposit to the Water Quality Improvement Fund (WQIF) generated by the FY 2015 revenue surplus, and $6.7 million for the "Part B" deposit, generated by unexpended appropriations at the end of FY 2015. Both amounts will be appropriated in FY 2017.

Economic Projections

The 2016-18 general fund revenue forecast assumes "economic" growth rates of 3 percent for FY 2017 and 3.7 percent for FY 2018. Embedded in this forecast is the continuation of the "modified collar" on nonwithholding tax collections employed in FY 2016, which reduces revenues by $188.2 million in FY 2017 and $194.3 million in FY 2018.

After proposed tax policy changes and technical adjustments, estimated growth rates for the two years are unchanged, resulting in projected collections of $18,860.3 million in FY 2017 and $19,551.4 million in FY 2018. The forecast assumes that growth will remain sluggish and

Virginia will underperform the nation as the impact of federal budget actions continue to dampen the Virginia economy due to the large military presence and heavy reliance on federal procurement spending.

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

	FY 2017		FY 2018	
	VA	U.S.	VA	U.S.
Employment	1.3%	1.4%	1.0%	1.3%
Personal Income	3.8%	5.1%	4.2%	5.4%
Wages & Salaries	4.3%	5.2%	4.0%	5.2%

Forecast of General Fund Revenues
Projected Growth
(2016-18 biennium, $ in millions)

	FY 2017	% Growth	FY 2018	% Growth
Net Individual	$13,162.4	3.0%	$13,753.2	3.7%
Corporate	778.0	3.3%	724.9	(6.8%)
Sales	3,528.9	3.9%	3,663.1	3.8%
Insurance	330.6	4.0%	345.3	4.5%
Recordation	379.4	1.7%	379.4	0.0%
All Other	681.1	(1.2%)	685.5	0.6%
Total Revenues	**$18,860.3**	**3.0%**	**$19,551.4**	**3.7%**

Proposed Tax Policy Changes Assumed in Revenue Forecast

A total of $204.6 million is removed from the biennial revenue forecast based on proposed tax policy changes, as shown below.

Proposed Tax Policy Changes	FY 2017	FY 2018	Biennial
Accelerated Sales Tax – Remove Additional Merchants from Requirement	($36.7)	($27.0)	($63.7)
Increase Personal Income Exemption	(13.9)	(28.1)	(42.0)
Reduce Corporate Rate to 5.75%	(17.2)	(46.5)	(63.7)
Establish New R&D Credit for Large Firms		(15.0)	(15.0)
Increase Existing R&D Tax Credit		(1.0)	(1.0)
Increase Angel Investor Tax Credit	(4.0)	(4.0)	(8.0)
Increase Neighborhood Assistance Act Credit	(5.0)	(5.0)	(10.0)
ABLE Accounts Tax Deduction	(0.2)	(0.5)	(0.7)
Food Bank Tax Credit	(0.2)	(0.3)	(0.5)
Total Tax Policy Changes	**($77.2)**	**($127.4)**	**($204.6)**

The proposed adjustments to accelerated sales tax collection would raise the annual sales threshold for those required to participate from the current threshold of $2.5 million to $10.0 million in FY 2017 and $25.0 million in FY 2018. This would eliminate the requirement for more than 90 percent of the dealers, and only the 482 largest retailers would participate by FY 2018. The revenue loss in each year is one-time in nature, reflecting the shifting of tax revenues from June of a given fiscal year into July of the next year.

HB/SB 30 also assumes lower revenues resulting from proposed legislation to reduce the corporate income tax rate from 6 percent to 5.75 percent beginning in tax year 2017. A partial effect would be seen in FY 2017, at an estimated cost of $17.2 million, with a larger impact of approximately $46.5 million in FY 2018.

HB/SB 30 also reflects a proposal to increase the individual income tax personal exemption from $930 to $1,000, and the additional exemption provided to the aged and blind from $800 to $900 per year. Effective tax year 2017, this action reduces revenues by $13.9 million in FY 2017 and, when in effect for a full fiscal year, the annual costs are estimated at $28.1 million beginning in FY 2018.

The revenue forecast also reflects proposed legislation relating to research and development tax credits. The proposal would increase the cap on the existing R & D tax credit by $1.0 million beginning in tax year 2016, bringing the total credit available to $7.0 million per year. The same legislation would establish a new R & D tax credit available to larger firms with research expenditures exceeding $5.0 million annually. This credit would be capped at $15.0 million a year, beginning in tax year 2016.

Also assumed in the HB/SB 30 revenue forecast is the adoption of an increase in the existing “angel investor” tax credit. Currently capped at $5.0 million each year, the proposed legislation would increase that cap to $9.0 million each year beginning in tax year 2016, reducing revenues by an additional $8.0 million over the biennium.

Legislation will be proposed increasing the tax credit cap for the Social Services component of the Neighborhood Assistance Act by $3.0 million each year, and the cap for the Department of Education component by $2.0 million each year. These actions would increase the overall cap to $22.0 million each year.

Finally, the revenue forecast reflects two smaller tax policy proposals. The first would establish a new tax deduction for those holding ABLE accounts, with annual deductions capped at $2,000 per filer. This would reduce revenues by $700,000 over the biennium. Language implementing this proposal is included in HB/SB 30. The second would create a new tax credit for donations to food banks, capped at $250,000 annually. This credit would not be available to individual donors, but is geared to large farm and producer donations.

Non-Tax Policy and Technical Revisions Impacting the Revenue Forecast

Other proposed policy changes impacting the projected revenue forecast result in a net reduction of $18.4 million over the biennium. The largest adjustment results from the proposal to unwind the retention of nongeneral fund interest earnings in the general fund, resulting in a GF reduction of $11.1 million each year. Also proposed is the elimination of profits to the general fund from prison phone charges, reducing revenues by $2.6 million each year. A technical adjustment to a partnership between the Department of Taxation and the Internal Revenue Service results in a forecast reduction of $1.1 million over the biennium. At the Department of Taxation, enhanced refund review is anticipated to reduce refund fraud by $8.4 million over the biennium, and enhanced review of sales tax collections on tobacco products is expected to generate $1.9 million in additional collections.

Transfers

Proposed transfers to the general fund increase total available resources by $1,154.3 million over the biennium. Of this amount, $789.9 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 $158.4 million for the biennium, with an additional $130.8 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.

HB/SB 30 increases the amounts directed to the Game Protection Fund by $7.7 million each year with $2.7 million annually attributable to the watercraft sales and use tax, and $5.0 million from the portion of the general sales tax dedicated to the Fund by Code, resulting in transfer reductions in a like amount. Total amounts transferred from the general fund to the Game Protection Fund thus increase to $35.4 million over the biennium.

HB/SB 30 also reflects reduced transfers from the Trauma Center Fund and $4 for Life transfer by $3.0 million each, in both years of the biennium, to phase-out the use of those funds to support general fund activities employed to address prior budgetary shortfalls.

The remaining transfer actions are customary transfers that have not been adjusted beyond technical updates compared to the amounts transferred in Chapter 665 of the 2015 Acts of Assembly.

Proposed Transfers in HB/SB 30, as Introduced

0.375 percent Sales Tax - Public Education	$789.9
ABC/Wine to DBHDS for Substance Abuse	149.0
ABC Profits	158.4
Children's Health Insurance Program	(28.1)
Watercraft Sales and Use Tax	(9.4)
Transfer Sales Tax to Game Protection Fund	(26.0)
Reduce Transfer of $4 for Life to GF	15.0
Reduce Trauma Center Fund Transfer to GF	12.1
Unrefunded Marine Fuels	14.3
Local and Transportation Sales Tax Compliance	16.6
NGF Indirect Costs	16.1
Court Debt Collections	10.2
Uninsured Motorists Fees	14.8
IDEA Fund Transfer	13.0
ABC Operational Efficiencies	4.9
Land Preservation Fund Transfer	1.2
Miscellaneous Other	2.3
Total	**$1,154.3**