

Resources

The proposed 2014-16 budget includes \$37.8 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation (2014-16 biennium, \$ in millions)	
Beginning Balance	\$536.5
Adjustments to the Balance	94.0
Official GF Revenue Estimate	36,059.5
Transfers	<u>1,072.9</u>
GF Resources Available for Appropriation	\$37,763.0

Available Balance

The budget, as introduced, includes \$536.5 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 Constitutionally required deposit to the Rainy Day Fund. The balance also includes net spending reductions of \$249.1 million proposed in HB/SB 29. 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 as an advance Rainy Day Fund reserve to be used to offset the deposits required in the FY 2014-16 biennium.

Economic Projections

The 2014-16 general fund revenue forecast assumes “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 are 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 assumes that growth will remain sluggish and Virginia will 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.

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

	<u>FY 2015</u>		<u>FY 2016</u>	
	<u>VA</u>	<u>U.S.</u>	<u>VA</u>	<u>U.S.</u>
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
(2014-16 biennium, \$ in millions)**

	<u>FY 2015</u>	<u>% Growth</u>	<u>FY 2016</u>	<u>% Growth</u>
Net Individual	\$12,359.0	5.1%	\$12,932.7	4.6%
Corporate	816.6	2.1%	822.7	0.7%
Sales	3,175.7	3.1%	3,256.7	2.6%
Insurance	290.9	0.5%	303.1	4.2%
Recordation	377.5	0.0%	377.5	0.0%
All Other	<u>666.3</u>	0.6%	<u>680.6</u>	2.1%
Total Revenues	\$17,686.1	4.2%	\$18,373.3	3.9%

Proposed Tax Policy Changes Assumed in Revenue Forecast

A total of \$15.4 million is removed from the biennial revenue forecast based on proposed tax policy changes, as shown below.

Proposed Tax Policy Changes	FY 2015	FY 2016	Biennial
Accelerated Sales Tax – Remove additional merchants from requirement	\$0.00	(\$29.9)	(\$29.9)
Increase Neighborhood Assistance Act credit caps	(1.0)	(2.0)	(3.0)
Firearms Transaction Fee – Reclassify from Transfer to Revenue	0.9	0.9	1.8
Tax Compliance Initiative	10.0	10.0	20.0
Sale of Brunswick Correctional Center	0.00	10.0	10.0
Phase-Out Diversion of NGF Interest	(3.8)	(7.6)	(11.4)
Miscellaneous	<u>(1.4)</u>	<u>(1.5)</u>	<u>(2.9)</u>
Total Tax Policy Changes	\$4.7	(\$20.1)	(\$15.4)

The proposed next step in phasing out the Accelerated Sales Tax will eliminate the requirement for all except the 75 largest merchants (99 percent of merchants will be exempted from the requirement).

The credit caps for the Social Services and Education components of the Neighborhood Assistance Act would each be 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 would increase 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.

Impact of Adopted Tax Policy Changes on Revenue Forecast

In addition to tax policy changes being proposed 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 731 (SB131) and Chapter 842 (HB 321) 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 3 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 (SB 131/HB 321, 2012)	(15.0)	(20.0)	(35.0)
Transfer Additional Sales Tax to Transportation (HB 2313, 2013)	<u>(50.9)</u>	<u>(\$54.3)</u>	<u>(105.2)</u>
Total Tax Policy Changes	(\$106.0)	(\$114.1)	(\$220.1)

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

Transfers

Proposed transfers to the general fund increase total available resources by \$1,072.9 million over the biennium. Of this amount, \$710.0 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 \$141.8 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.

HB/SB 30 reduces the transfer from the Trauma Center Fund and \$4 for Life transfer by \$1.0 million each in FY 2016, and eliminates the transfer of a number of NGF balances totaling \$18.3 million for the biennium.

Proposed Transfers in HB/SB 30, as Introduced

.0375 percent Sales Tax - Local Real Estate/SOQ Fund	\$710.0
ABC/Wine to DBHDS for Substance Abuse	149.0
ABC Profits	141.8
Unrefunded Marine Fuels Tax	14.8
Sales Tax Compliance & Indirect Cost Recoveries	30.3
Court Debt Collections	9.2
ABC Operating Efficiencies	3.1
IDEA Funds	13.0
Uninsured Motorist Fees	14.8
Transfer Sales Tax to Game Protection Fund	(37.8)
Transfer to Children's Health Program	(28.1)
Sale of Alexandria ABC office (moved from FY 2014)	12.5
Driver license Reinstatement-Trauma Center Fund	17.1
Vehicle registration fee-Increase \$4 for Life	20.0
Miscellaneous Other	<u>3.2</u>
Total	\$1,072.9