

Resources

The Governor's proposed 2008-10 budget includes \$36.2 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation (2008-10 biennium, \$ in millions)	
Beginning Balance	\$29.0
Adjustments to the Balance	190.1
Official GF Revenue Estimate	34,335.5
Transfers	<u>1,643.1</u>
GF Resources Available for Appropriation	\$36,197.7

Available Balance

The budget, as introduced, includes \$29.0 million as a projected unspent balance at the end of the 2006-08 biennium. Adjustments to the beginning balance include a reversion of \$11.0 million in capital cash balances due to a change in project priorities at Radford University (replacement projects are included in a proposed Virginia College Building Authority bond issue), and a recommended reversion of \$180.0 million in fiscal year 2009 from the \$500.0 million in general fund dollars that were appropriated to transportation in fiscal year 2008. The budget utilizes these dollars as a means of "cash-flowing" a like amount of spending in fiscal year 2009. The dollars are restored through an appropriation to transportation in fiscal year 2010.

Final adjustments reflect a \$500,000 per year contingency for the Intergovernmental Cash Management Act and a planned reversion of \$123,866 from the Governor's Office.

Economic Projections

The 2008-10 general fund revenue forecast assumes below trend revenue growth of 3.3 percent in fiscal year 2009, accelerating to 6.7 percent in fiscal year 2010. The FY 2009 growth rate includes the effect of newly-adopted tax policy actions that eliminate the estate tax and dedicate general funds to transportation, as well as increased use of the land conservation and low income tax credits. Exclusive of tax policy changes, the economic growth rate assumed in the introduced budget is 5.2 percent in FY 2009 and 6.7 percent in FY 2010 (projected economic growth in FY 2008 is 3.6 percent).

This forecast assumes that housing-related economic weakness will begin to moderate in fiscal year 2009 and that job and income variables will be approaching long-term trend growth by FY 2010, with Virginia continuing to out-perform the nation.

Economic Variables Assumed In Forecast Percent Growth Over Prior Year (December Forecast)				
	<u>FY 2009</u>		<u>FY 2010</u>	
	<u>VA</u>	<u>National</u>	<u>VA</u>	<u>National</u>
Employment	1.5%	1.0%	1.8%	1.3%
Personal Income	5.9%	4.7%	6.2%	5.3%
Wages & Salaries	5.2%	4.5%	6.0%	4.9%

Forecast of General Fund Revenues Projected Growth (2008-10 biennium, \$ in millions)				
	<u>FY 2009</u>	<u>% Growth</u>	<u>FY 2010</u>	<u>% Growth</u>
Net Individual	\$11,086.0	6.4%	\$11,890.4	7.3%
Corporate	743.7	(0.6%)	783.9	5.4%
Sales	3,300.9	5.3%	3,488.7	5.7%
Insurance	284.2	(29.5%)	305.9	7.6%
Recordation	449.4	(13.6%)	489.8	9.0%
All Other	<u>746.5</u>	<u>(13.1%)</u>	<u>766.0</u>	<u>2.6%</u>
Total Revenues	\$16,610.8	3.3%	\$17,724.	6.7%
* Reduction in Insurance in FY 2009 reflects shift of 1/3 of revenues to NGF pursuant to legislation adopted by 2007 General Assembly.				

The revenue estimate is based on the Global Insight standard forecast which assumes that a recession can be avoided; however, Global Insight acknowledges that substantial downside risks underlie the forecast:

- The housing slowdown could extend beyond early 2009;
- Oil prices over \$90 per barrel could stall the economy;
- Federal government spending priorities are unknown;
- Tighter credit conditions for both consumers and businesses could dampen the broader economy.

Impact of Policy Changes on Revenue Estimates

The general fund revenue projection incorporates the impact of the following recently enacted tax policy changes:

Tax Policy Changes
<p>Increase the income tax filing threshold from \$7,000 to \$11,250 for single and from \$14,000 to \$22,500 for married filers, and increase the personal exemption from \$900 to \$930, effective January 1, 2008.</p> <p>Sales tax holidays for hurricane preparedness/energy efficiency</p> <p>Elimination of the estate tax</p> <p>Dedicated 1/3 of Insurance premiums to transportation (27 percent previously dedicated)</p> <p>\$0.03/\$100 recordation tax dedicated to transportation</p> <p>Increased use of Land Preservation Tax Credit</p>

In combination, these tax policy changes reduce general fund revenues by \$482.2 million in FY 2009 and \$437.1 million in FY 2010.

HB/SB 30, as introduced, also includes the impact of two proposed tax policy changes that will be offered in separate legislation. General fund revenue of \$6.5 million in FY 2009 and \$6.7 million in FY 2010 is included from proposals to (1) advance the date of conformity with federal tax law from December 2006 to December 2007, and (2) close corporate tax loopholes related to property placed in company-owned real estate investment trusts.

Transfers

Proposed transfers to the general fund increase available resources by \$1.64 billion. Of this amount, \$900.0 million is the transfer of lottery profits estimated at \$450.0 million each year,

or an increase of \$44.6 million per year over the prior forecast. This increase reflects the fact that North Carolina's lottery has not degraded sales in Virginia to the degree previously expected.

An additional \$501.6 million will be transferred from the Local Real Estate/SOQ Fund for public education to reflect the 1/4 percent sales tax enacted in 2004. Other customary transfers include ABC profits of \$69.1 million for the biennium, with an additional \$65.4 million each year of ABC profits and \$9.9 million per year of wine tax profits going to DMHMRSAS for substance abuse programs.

The introduced budget includes a transfer of \$890,000 per year for the Health Department's Vital Records fee increase that was initiated in FY 2008 as a GF budget savings strategy.

HB/SB 30 includes a transfer reduction of \$15.6 million in FY 2009, reflecting the foregone Rainy Day Fund refund that results from the proposed Fund withdrawal in FY 2008. Finally, transfers are increased by \$12.0 million to reflect the anticipated sale of an ABC regional office building in Alexandria. This sale has been scheduled and delayed several times.

Proposed Transfers in HB/SB 30, As Introduced	
Lottery Profits	\$900.0
1/4 cent Sales Tax - Local Real Estate/SOQ Fund	501.6
ABC/Wine to Dept. MHMRSAS for Substance Abuse	150.5
ABC Profits	69.1
Un-refunded Marine Fuels Tax	14.8
Sales Tax Compliance & Indirect Cost Recoveries	33.5
Court Debt Collections	7.2
Sale of ABC Alexandria Regional Office	12.0
Vital Records Fee Increase	1.8
IDEA Funds	11.0
Covanet Savings	1.7
Transfer Sales Tax to Game Protection Fund	(35.3)
Transfer to Children's Health Program	(28.1)
Miscellaneous Other	<u>3.3</u>
Total	\$1,643.1