

SENATE OF VIRGINIA

Senate Finance Committee

Overview of SB 5005

Proposed Amendments to

Chapter 2, 2014-16 Biennial Budget

2014 Special Session I

September 18, 2014



Actions Taken in Chapter 2

- Chapter 2, the 2014-16 biennial budget bill adopted in June, addressed an *anticipated* budget shortfall of about \$1.55 billion.
 - Assumed FY 2014 collections would fall short by \$350.0 million, due to taxpayer behavior on non-withholding/estimated payments.
 - Assumed negative impact on revenues of \$600.0 million in both FY 2015 and FY 2016.
- The adopted budget included strategies to close the projected shortfall:
 - Set-aside budget reversions totaling \$842.5 million.
 - Anticipated a withdrawal of about \$705.0 million from the Rainy Day Fund.



FY 2014 Revenue Shortfall

- FY 2014 ended with a revenue shortfall of \$437.8 million (more than the anticipated \$350 million), triggering the revenue reforecasting process.
 - Revenues fell short \$559.1 million in the major tax sources (corporate, withholding, non-withholding, sales), offset by \$120.6 million more from minor sources (insurance, interest).
- Governor McAuliffe presented a revised revenue forecast to the Joint Money Committees on August 15th.
 - Forecast is based on the recommendations of the JABE and GACRE forecasting groups.
 - Reflects impact of FY 2014 shortfall, and continued sluggish job and wage/salary growth, especially in Northern Virginia.



August Revised Revenue Forecast

- The August forecast is significantly lower than anticipated in Chapter 2, as reflected in GF growth rates:
 - GF revenue growth of 2.7 percent in each year of the biennium, down from 5.2 percent for FY 2015 and 4.1 percent for FY 2016.
- Chapter 2 assumed a carry-forward balance from FY 2014 of \$128.6 million. Based on actual collections, the balance available is only \$40.1 million, or \$88.5 million less than planned.
- Including the additional FY 2014 shortfall, the biennial deficit is about **\$881.5 million** more than anticipated in Chapter 2.



Calculating the Shortfall Addressed in SB 5005

<i>(\$ in millions)</i>	FY 2015	FY 2016	Total
Chapter 2 Official Revenues	\$17,721.9	\$18,448.6	\$36,170.5
<i>August Revenue Forecast</i>	<u>16,862.4</u>	<u>17,313.3</u>	<u>34,175.7</u>
Variance	(\$859.5)	(\$1,135.3)	(\$1,994.8)
FY 2014 Revenue Shortfall	<u>(437.8)</u>	<u>0</u>	<u>(437.8)</u>
Total Shortfall	(\$1,297.3)	(\$1,135.3)	(\$2,432.6)
Ch. 2 Revenue Reserve Fund	\$481.8	\$364.3	\$846.1
Rainy Day Fund Withdrawal	<u>\$470.0</u>	<u>\$235.0</u>	<u>\$705.0</u>
Remaining Shortfall	(\$345.5)	(\$536.0)	(\$881.5)



SB 5005: What this bill does...

- Amends the current biennial budget bill, Chapter 2.
- Updates the revenues assumed in the budget to reflect the downward revisions to the forecast as developed and presented by the Governor in August.
- Appropriates transfers from the Rainy Day Fund of \$470.0 million in FY 2015 and \$235.0 million in FY 2016.
- Includes actions to close the *remaining* budget shortfall of \$345.5 million in FY 2015 and \$536.0 million in FY 2016.
 - Allows Governor, local governments, and colleges to determine the actual detailed reduction strategies.



SB 5005: Closing the Budget Gap

- Identifies \$267.7 million in agency balances, transfers, and reversions.
- Creates four reversion clearing accounts totaling \$614.4 million that provide parameters for the budget cuts that must be identified by the Governor.

GF \$ in Millions		
	<u>FY 2015</u>	<u>FY 2016</u>
Balances/Transfers/Other	\$189.7	\$ 78.0
Reversion Accounts:		
State Agencies	\$ 92.4	\$100.0
Higher Education	45.0	45.0
Aid to Localities	30.0	30.0
Miscellaneous/Other Actions	<u>0.0</u>	<u>272.0</u>
Total	\$357.1	\$525.0



Components of SB 5005

- Additional resources were generated from agency balances, debt service savings, and other miscellaneous actions.
- Includes language freezing the transfer of sales tax revenues dedicated to transportation at the FY 2014 level of 0.55 cents.
 - Delays the \$50.0 million incremental increase to transportation scheduled for FY 2015 to FY 2016, and strikes requirement to repay in FY 2016.

(GF in millions)	<u>FY 2015</u>	<u>FY 2016</u>
Miscellaneous Balances/Transfers/Rev	\$118.0	\$ 5.0
Delay GF Sales Tax to Transportation	19.8	30.0
Legislative Branch Balances	4.9	0.0
Judicial Branch Savings	0.7	0.0
K-12: Additional Lottery Proceeds	28.1	0.0
K-12: Literary Fund	15.0	0.0
Eliminate Higher Education Reserve	0.0	20.0
Debt Service Savings from Refinancings	<u>3.2</u>	<u>23.0</u>
Subtotal	\$189.7	\$ 78.0



Components of SB 5005

- State agency reductions of \$92.4 million in FY 2015 and \$100.0 million in FY 2016 – approximately 4 percent each year.
 - Governor can determine agency targets and strategies, subject to the provisions of § 4-1.02, Chapter 2.
 - Governor requested each agency to plan for 5 percent reductions in FY 2015 and 7 percent reductions in FY 2016; plans due September 19th.
- Savings from state aid to local governments of \$30.0 million each year.
 - If K-12 and car tax reimbursement are excluded (as Kaine and McDonnell chose to do), \$30.0 million is about 0.3 percent of total local aid funding.
 - Targets will be established by the Department of Planning and Budget and will be distributed among localities based on a pro rata share of total local aid received.
 - Localities will be given the flexibility to identify which programs to reduce to achieve the target.



Components of SB 5005

- Reductions of \$45.0 million per year for public colleges and universities; exempts research and financial aid.
- Targets based on each institution's in-state/out-of-state mix and revenue capacity (equivalent GF cuts would range from 0.9 percent to 6.6 percent).
- Language, consistent with the Governor's guidance, directs institutions to achieve savings through productivity and efficiencies rather than mid-year revenue adjustments.
- Eliminates a \$20.0 million reserve for higher education in FY 2016, set aside in Chapter 2 for allocation in the 2015 Session.

Institution	Annual Reduction Amount
CNU	\$ 601,975
CWM	2,338,873
GMU	4,705,571
JMU	3,113,308
LU	542,707
NSU	550,089
ODU	2,230,669
RU	1,113,249
UMW	635,447
UVA	8,160,065
UVA-Wise	126,330
VCU	5,377,759
VMI	441,825
VSU	637,174
VT	6,133,525
RBC	64,754
VCCS	8,226,680



Components of SB 5005

- A final Miscellaneous Reversion Account of \$272.0 million will be addressed by the Governor in his December budget bill.
- SB 5005 replaces language and funding in Chapter 2 with an appropriation of \$5.7 million in FY 2015 and \$10.1 million in FY 2016 for the filling of judgeships.
 - Funding should allow for the filling of 36 vacant judgeships, effective December 1, 2014. Saves \$3.2 million in FY 2015 due to the delay.
- Includes language authorizing the Governor to reallocate up to \$5.0 million each year from economic development appropriations to other programs designed to enhance economic development efforts, providing such funds can be used to enhance job creation.



Why introduce a budget bill now, rather than next January?

- Gives state agencies and local governments maximum lead-time to determine how they will adjust their budgets in FY 2015 to accommodate the required budget cuts (already about three months into the fiscal year).
- The General Assembly is still in session, and had planned to reconvene on September 18th (not the case in 2009 when Governor Kaine had to develop budget cut plans).
- Sends a clear signal to Wall Street and the business community that Virginia is working in a bipartisan fashion to address its budget shortfall in a timely manner.

