

## Resource Changes for 2010-12

The revenue reforecasting process undertaken in Fall of 2010 resulted in an increase in the estimated general fund revenues of \$408.9 million over the biennium. A mid-session adjustment to the revenue forecast in February provided an additional \$172.0 million in resources, and \$20.4 million was added during the reconvened session. After adjustments to transfers, carry forward balances and tax policy changes, total general fund resources available for appropriation are \$615.5 million more than assumed when Chapter 874 was adopted by the 2010 General Assembly.

<b>Increase in General Fund Resources Available for Appropriation for 2010-12</b> (\$ in millions)			
	<b><u>Original Amount</u></b>	<b><u>Revised Amount</u></b>	<b><u>Difference</u></b>
June 30, 2010 Balance	\$ 132.2	\$ 491.2	\$359.0
Adjustments to the Balance	523.1	320.2	(202.8)
Official Revenue Estimates*	29,886.6	30,313.3	426.7
Appropriation Act Transfers	<u>859.1</u>	<u>891.7</u>	<u>32.6</u>
<b>GF Resources Available for Appropriation</b>	<b>\$31,401.0</b>	<b>\$32,016.4</b>	<b>\$615.5</b>
*Includes revenues adjustments in HB 1500 as introduced plus mid-session reforecast and reconvened session.			

After the resource adjustments and all approved spending and savings amendments are taken into consideration, the remaining unappropriated balance at the end of the biennium is \$2.1 million.

### **Changes in the June 30, 2010 Balance**

Chapter 874 assumed an unencumbered year-end balance in fiscal year 2010 of \$132.2 million. After year-end close, the unreserved fund balance was \$491.2 million, a difference of \$359.0 million. The increase in the actual year-end balance reflects the \$228.5 million in general fund revenues collected in fiscal year 2010 in excess of the official forecast plus agency general fund operating balances totaling \$174.8 million. These amounts are then offset by mandatory distributions totaling \$44.3 million, the largest of which is the distribution of \$18.7 million of the sales tax in excess of forecast to localities for K-12 public education.

<b>Adjustments to Beginning Balance</b> (\$ in millions)	
<b>June 30, 2010 Cash Balance</b>	<b>\$870.9</b>
Revenue Stabilization Reserve Fund	(295.2)
Payroll Reserve for July 1, 2010	(83.1)
Lottery Proceeds Fund	<u>(1.4)</u>
<b>Total Reserved Fund Balance</b>	<b>(\$379.7)</b>
<b>Total Unreserved Fund Balance</b>	<b>\$491.2</b>
Assumed Carry Forward Balance in Chapter 874	<u>\$132.2</u>
<b>Net Difference</b>	<b>\$359.0</b>

### **Changes in Revenue**

After declining for the first eight months of FY 2010, total general fund revenues increased on a year-over-year basis in three of the last four months of the fiscal year, ending 19 consecutive monthly declines dating back to August 2008. As a result, FY 2010 ended with general fund revenues exceeding the forecast by \$228.5 million. Strength in corporate collections and nonwithholding taxes, two of the most volatile sources, made up three-quarters of the surplus, although revenues exceeded the forecast for all major revenue sources with the exception of recordation taxes.

The majority of the revisions to the official forecast in Chapter 874 reflect base adjustments resulting from greater than anticipated revenue collections in FY 2010. The Global Insight October standard economic outlook remains largely unchanged, and assumes a continued weak economic expansion. Further modifications to the forecast reflect stronger than anticipated collections through the first seven months of the current fiscal year for payroll withholding and sales tax collections and conversely, continued weakness in recordation taxes.

The revised revenue economic growth rate assumption, exclusive of tax policy changes, is 5.5 percent for FY 2011 and 5.6 percent for FY 2012, with a corresponding revenue increase of \$592.5 million (not including transfers). When tax policy changes and other revenue adjustments are included, the revenue growth rates are 3.5 percent for FY 2011 and 5.9 percent for FY 2012.

Beyond tax policy changes that reduce general fund revenues by \$108.5 million over the biennium, additional revenue adjustments include the loss of \$25.0 million each year from reduced interest earnings on NGF funds that were to be transferred to the general fund. As outlined in the table below, net revenue adjustments total \$426.7 million over the biennium.

<b>Changes in GF Revenue</b> (\$ in millions)			
	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>	<b><u>Biennial</u></b>
Oct/ Dec Forecast Changes	\$209.1	\$199.8	\$408.9
Session Changes	65.0	118.6	183.6
Brunswick DOC Sale	(20.0)	20.0	-
Interest from NGF Accounts	(25.0)	(25.0)	(50.0)
Adjust Clerk's Fees Estimate	(2.8)	(2.8)	(5.6)
Miscellaneous Technical	(1.5)	(0.2)	(1.7)
<b>Tax Policy Changes:</b>			
Phase-out Accelerated Sales Tax	(\$45.7)	-	(\$45.7)
Advance Federal Fixed-date Conformity	(19.8)	(8.7)	(28.5)
Cancellation of Debt	(14.9)	7.4	(7.5)
Conform to EITC	(6.2)	-	(6.2)
Data Ctr. Sales Tax Exemption	(3.3)	(7.0)	(10.3)
Virginia Port Tax Credit	-	(5.0)	(5.0)
Winery Tax Credit	-	(0.3)	(0.3)
Refundable R & D Tax Credit	<u>-</u>	<u>(5.0)</u>	<u>(5.0)</u>
<b>Total Revenue Changes</b>	<b>\$134.9</b>	<b>\$291.8</b>	<b>\$426.7</b>

Tax policy changes include reflection of a decrease in revenues due to federal and state law changes, tax incentives associated with economic development initiatives, and a partial unwinding of the accelerated sales tax requirement adopted in 2010. The amendments to advance the fixed date conformity with federal law reduce general fund revenue by \$28.5 million over the biennium. Actions also include a net reduction to revenues of \$7.5 million by extending a provision of tax conformity related to "cancellation of debt" that was adopted in Chapter 874 to a portion of taxable year 2010 income. Conforming to the earned income tax (EITC) expansion provisions of the ARRA legislation for tax year 2010 reduces revenue by \$6.2 million in FY 2011. Also assumed is a reduction in revenues totaling \$10.3 million from the state's data center sales tax exemption which was expanded in the 2010 Session.

Revenues in FY 2011 will also be reduced \$45.7 million to eliminate the accelerated sales tax in June, 2011 for approximately 80 percent of the merchants currently paying accelerated sales tax. Phasing out this requirement was required in Chapter 874 to begin in FY 2013.

Other tax policy changes include three economic development incentives that would impact FY 2012 revenues. First, a tax credit for businesses operating at Virginia Port facilities would reduce revenues by no more than \$5.0 million. Second, a refundable research and development credit would also reduce tax collections by \$5.0 million in FY 2012. Finally, a tax credit to encourage expansion of Virginia vineyards and wineries is estimated to reduce revenues \$250,000 in FY 2012.

The combined effect of economic forecast revisions, other revenue adjustments and approved tax policy changes result in the following revenue changes by source:

<b>GF Revenue Changes by Source</b> (\$ in millions)			
	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>	<b><u>Biennial</u></b>
Withholding	\$180.3	\$257.3	\$437.6
Nonwithholding	(48.9)	(59.3)	(108.2)
Refunds	<u>27.1</u>	<u>(4.9)</u>	<u>22.2</u>
<b>Net Individual Income</b>	<b>\$158.5</b>	<b>\$193.1</b>	<b>\$351.6</b>
Sales*	\$88.1	\$141.3	\$229.4
Corporate	(26.2)	(6.8)	(33.0)
Wills (Recordation)	(40.0)	(12.9)	(52.9)
Insurance	3.3	(1.8)	1.5
All Other Revenue	<u>(48.8)</u>	<u>(21.1)</u>	<u>(69.9)</u>
<b>Total Revenue Changes</b>	<b>\$134.9</b>	<b>\$291.8</b>	<b>\$426.7</b>
*Reflects partial phase-out of Accelerated Sales Tax.			

### **Adjustments to Balance**

As adopted by the 2010 General Assembly, Chapter 874 assumed adjustments to balances totaling \$523.1 million over the biennium. Changes adopted in Chapter 890 of the 2011 Acts of Assembly reduce balance additions by \$163.7 million in FY 2011 and \$39.1 million in FY 2012, or a biennial total adjustment of \$202.8 million, resulting in net balance additions of \$91.0 million in FY 2011 and \$230.2 million in FY 2012.

The majority of adjustments to balances in FY 2011 reflect technical accounting changes that are routinely required to reconcile the Comptroller's year-end report with budget actions anticipated in Chapter 874 and to account for FY 2010 unspent balances. Among the largest is the addition of \$83.1 million from the July 1, 2010 payroll reserve that had been set aside from FY 2010 balances. Also included are the reappropriation of a number of operating and capital balances, and the distribution of surplus revenues to the appropriate funds.

At the close of FY 2010, agency balances totaled \$174.8 million. Of this amount, the Governor reverted \$87.4 million to the general fund to address his budgetary priorities. The remaining \$70.1 million of “mandatory” balances and \$17.3 million of “discretionary” balances were retained by agencies and are shown as reductions to the balance. During the session, \$4.1 million of additional balances were identified for reversion to the general fund.

Other adjustments include the use of \$74.6 million in surplus revenues for the contingent 3 percent state employee bonus granted in December 2010 pursuant to provisions of Chapter 874. Also included are the distribution of \$37.5 million in revenues generated by the local communications sales and use tax collected by the Commonwealth, the distribution of \$27.7 million attributable to the Transportation Trust Fund share of the accelerated sales tax collections, and reinstatement of a \$13.9 million sum sufficient natural disaster appropriation. Smaller actions include the reappropriation of \$8.8 million in capital project and central capital planning funds, as well as payment of \$1.2 million of the Dominion Power rebate to the federal government, representing their share of electric costs for joint programs.

In FY 2012 a total of \$10.9 million from both general and nongeneral funds is provided to address a portion of the unfunded VRS liability to reduce the cliff effect of anticipated rate increases in the next biennium. Because savings and spending actions related to VRS are made centrally, this funding appears as an adjustment to balances. (A broader discussion of changes to VRS rates is included in Central Accounts.)

<b>Adjustments to Balance</b> (2010-12 biennium, \$ in millions)	
<b>Changes to Balance:</b>	
Technical: Add FY 11 Payroll Reserve	\$ 83.1
Reversion of Agency Balances	4.1
December 2010 3% Employee Bonus	(74.6)
Supplemental GF/ NGF VRS Payments	(34.1)
Reappropriation of Mandatory Op Balances	(70.1)
Reappropriation of Discretionary Operating Balances	(17.3)
Reappropriation of Capital Outlay and Planning	(8.3)
Natural Disaster Authorization	(13.9)
Distribute Communication Sales and Use Tax	(37.5)
Deposit Transportation Share of AST	(27.7)
Federal Share Dominion Power Rebate	(1.2)
Reduce Transfer Judicial Branch Balances	(4.7)
Miscellaneous technical	<u>(0.6)</u>
<b>Total Adjustments</b>	<b>(\$202.8)</b>

## Changes in Transfers

Most of the transfer increases are technical in nature and include: the transfer of \$17.7 million in sales tax (one-fourth percent deposited into the SOQ/ Property Tax Relief Fund) to the general fund due to forecast adjustments, assumed revenues of \$10.3 from the sale of the ABC property in Alexandria, an increase in the transfer of SCC balances to the general fund of \$3.3 million in FY 2012, and \$2.6 million from sale of two State Police helicopters. Other major adjustments include a reduction of \$2.7 million in ABC revenues transferred to the general fund due to legislative action dedicating a portion of these funds to the Wine Board and an ABC forecast reduction of \$1.5 million.

<b>Changes in Transfers</b> (2010-12 biennium, \$ in millions)	
Transfer of ¼ cent sales tax to GF	\$17.7
ABC Sale of Alexandria Office	10.3
Proceeds from sale of two state helicopters	2.6
SCC Balance Transfer	3.3
DOC Transfer to GF	1.5
Miscellaneous NGF balance transfers	0.5
Proceeds of Detention Center Sale	0.2
DEQ Corrections	0.8
Reflect ABC transfer to Wine Board	(2.7)
Reduced ABC profits	<u>(1.5)</u>
<b>Total Transfer Changes</b>	<b>\$32.6</b>