Department of Planning and Budget
2015 Fiscal Impact Statement

1. **Bill Number:** SB826

House of Origin	☒	Introduced	☐	Substitute	☐	Engrossed
Second House	☐	In Committee	☐	Substitute	☐	Enrolled

2. **Patron:** Martin

3. **Committee:** Finance

4. **Title:** Limit on appropriations.

5. **Summary:** Limits the growth in appropriations from state sources to the growth of Virginia's population plus the rate of inflation.

6. **Budget Amendment Necessary**: No.

7. **Fiscal Impact Estimates:** See Item 8.

8. **Fiscal Implications:** Beginning with fiscal year 2017, this bill would limit year to year appropriation growth from state sources to be less than the rate of population growth in Virginia plus the rate of inflation as measured by the Consumer Price Index (CPI). The bill does not define “appropriation from state sources.” For the purpose of this analysis, appropriation from state sources is assumed to mean general fund appropriation.

   The bill requires that appropriations increases are limited to inflation and population growth rates. It does not specify if this is to be the latest actual, annual rates or if it is intended to be based on projected rates for the years that are being budgeted. If it is the latter, the budget will be subject to potentially volatile changes as projections change with the passage of time.

   For the purposes of this analysis, it is assumed that the rate of population growth and the inflation rate used to limit appropriation level growth are the most recently available data. Currently, the Weldon Cooper Center’s latest Virginia population estimates are for July 1, 2013. The U.S. Bureau of Labor Statistics publishes a monthly measure of inflation and a yearly average. For the purposes of this analysis, the 12 month average beginning July 2013 and ending June 2014 is used in order to align with Virginia’s fiscal year.

   Using this methodology, Virginia’s population grew 0.91% and the rate of inflation was 1.57%. Consequently, SB 826 would limit the growth of appropriation in fiscal year 2017 to be 2.48% higher than the appropriation for fiscal year 2016. In Chapter 3, 2014 Acts of Assembly, Special Session I, the general fund appropriation for fiscal year 2016 is $18.1 billion. A 2.48% increase over this amount would equal $449.4 million.

If enacted, SB 826 may create conflict between other requirements in the *Code of Virginia* and the Constitution. For instance, the Constitution requires a deposit into the Revenue Stabilization Fund if certain conditions are met. A deposit of $163 million is projected for fiscal year 2017. Other requirements that may impact appropriation growth include items such as K-12 education rebenchmarking each biennium, debt service changes, Medicaid utilization and inflation, growth in employer retirement contribution rates, and growth in health insurance rates. If the growth limit cannot accommodate constitutionally or other required spending, decisions would need to be made about where savings could be achieved elsewhere in the budget in order to pay for the required spending and also stay within the limits prescribed in this bill.

The bill does not specify what occurs if revenues exceed the allowed growth in appropriation. Without any other changes in law, this situation may require additional or larger deposits into the Revenue Stabilization Fund.

If the Governor is required to use the most recently available data when preparing revisions to the biennial budget, significant shifts could occur over the course of the biennium. For example, a 10 basis point decrease in the appropriation growth rate limit (from 2.48% to 2.38%) would require an $18.1 million decrease in appropriation.

9. **Specific Agency or Political Subdivisions Affected:** All state agencies and all political subdivisions.

10. **Technical Amendment Necessary:** As stated in Item 8, the bill does not define “state sources.” For the purpose of this analysis, state sources were assumed to mean general fund. Consideration should be given to clarifying “state sources.”

11. **Other Comments:** None.

C: Secretary of Finance
Date: January 21, 2015
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