

Resources

The adopted 2018-20 budget includes \$42.6 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation Chapter 2, 2018 Special Session I (2018-20 biennium, \$ in millions)	
Beginning Balance	\$212.2
Adjustments to the Balance	21.5
Official GF Revenue Estimate	41,149.8
Transfers	<u>1,252.0</u>
GF Resources Available for Appropriation	\$42,635.5

Available Balance

The budget, as adopted, includes a projected beginning balance of \$212.2 million at the close of the 2016-18 biennium. This beginning balance results from the FY 2017 revenue surplus and the FY 2018 revenue forecast adjustment, and includes additional transfers and spending reductions included in Chapter 1 of the 2018 Special Session I Acts of Assembly (HB 5001).

The \$21.5 million adjustment to the balance reflects the appropriation of \$22.5 million from excess FY 2017 revenues set aside for the \$13.4 million "Part A" deposit to the Water Quality Improvement Fund (WQIF) generated by the FY 2017 revenue surplus, and \$9.1 million for the "Part B" deposit, generated by unexpended appropriations at the end of FY 2017. Both amounts are appropriated in FY 2019. These adjustments are offset by a reduction of \$500,000 each year pursuant to the Intergovernmental Cash Management Act.

Economic Projections

The 2018-20 general fund revenue forecast assumes "economic" growth rates of approximately 3.7 percent for FY 2019 and 3.9 percent for FY 2020. Embedded in this forecast is the continuation of the "modified collar" on nonwithholding tax collections employed in FY 2016-18, which lowers forecasted revenues by \$201.0 million in FY 2019 and \$209.0 million in FY 2020. The forecast assumes that Virginia will underperform the nation slightly as the impact of federal budget actions continue to 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 2019</u>		<u>FY 2020</u>	
	<u>VA</u>	<u>U.S.</u>	<u>VA</u>	<u>U.S.</u>
Employment	1.0%	1.2%	0.8%	1.0%
Personal Income	4.3%	4.5%	4.6%	5.0%
Wages & Salaries	4.4%	4.9%	4.0%	4.9%

After tax policy changes, adjustments for the shortfall in collections from Tax Amnesty in FY 2018 and other adjustments, revenue growth of 4.4 percent and 4 percent is required to meet the budget forecast in FY 2019 and 2020, respectively. Projected collections total \$20,173.7 million in FY 2019 and \$20,976.2 million in FY 2020.

Forecast of General Fund Revenues Projected Growth
Incorporates Tax Policy Changes and Withholding Revenue Reforecast
(2018-20 biennium, \$ in millions)

	<u>FY 2019</u>	<u>% Growth</u>	<u>FY 2020</u>	<u>% Growth</u>
Net Individual	\$14,183.8	5.1%	\$14,856.2	4.7%
Corporate	912.0	4.3%	926.4	1.6%
Sales	3,547.3	2.6%	3,625.2	2.2%
Insurance	376.6	4.0%	397.6	5.6%
Recordation	407.2	0.0%	407.2	0.0%
All Other	<u>746.8</u>	<u>1.6%</u>	<u>763.6</u>	<u>2.3%</u>
Total Revenues	\$20,173.7	4.4%	\$20,976.2	4.0%

Changes in Revenue Forecast

A total of \$176.8 million is added to the biennial revenue forecast based on enacted legislation, tax compliance initiatives, and higher than expected tax collections.

Legislation. The enactment of Chapters 14 and 15 of the 2018 Acts of Assembly (HB 154/SB 230) advances Virginia's fixed dated conformity with the federal tax code to December 31, 2017, and is anticipated to reduce revenues by \$3.3 million in FY 2019 based on the expansion of charitable deduction limits passed to encourage support for hurricane relief efforts. Chapters 838 and 840 of the 2018 Acts of Assembly (HB 1441/SB 249) provides that all-terrain vehicles, mopeds, and off-road vehicles shall be subject to the motor vehicle sales rather than the retail sales and use tax. That provision increases general fund revenues \$0.2 million each year. Chapter 296 of the 2018 Acts of Assembly (SB 966) provides an additional \$3.4 million in FY 2019 for rebate revenue accruing to the Commonwealth for utility payments on state facilities. Chapter 543 of the 2018 Acts of Assembly (HB 1249) expands the requirement for DNA analysis to individuals convicted of misdemeanor assault and battery and trespass. It is expected to increase general fund revenues \$0.1 million per year, as a portion of the fees charged to those individuals is paid to the general fund.

Individual Historic Rehabilitation Tax Credit. The adopted budget continues the policy limiting the amount that a taxpayer may claim to no more than \$5.0 million in Historic Rehabilitation Tax Credits. Virginia allows a credit equal to 25 percent of the eligible expenses incurred in the rehabilitation of a certified structure. This language does not limit the amount of credits that may be issued by the Department of Historic Resources, but it does impact the timing of when large credit amounts could be claimed (generates an estimated \$13.0 million in FY 2020).

Land Preservation Tax Credit. Continues the limit on the land preservation tax credit amount that can be claimed on each annual tax return to \$20,000 for a single filer and \$40,000 for joint filers (generates an estimated \$6.6 million in FY 2019 and \$6.6 million in FY 2020).

Compliance Initiatives. Tax compliance measures include an initiative at the Virginia Department of Taxation to expand audit efforts which is anticipated to produce \$14.7 million in additional revenue in FY 2019 and \$14.5 million in additional revenue in FY 2020. The effort will include hiring 12 additional personnel: ten auditors, a data scientist and a team leader to spearhead the efforts which focuses on expanded individual audits. Expanding notification of payroll system breaches to avert refund fraud is anticipated to generate \$300,000 in each year of the biennium.

Revenue Reforecast. The forecast was revised to include an additional \$60.0 million each year in anticipated tax collections. The reforecast is based primarily on actual withholding collections through the month of April 2018.

Transfers

Transfers to the general fund total \$1,252.0 million over the biennium. Of this amount, \$781.9 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 \$225.3 million for the biennium, with an additional \$130.8 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.

Chapter 2 includes transfers of \$33.7 million over the biennium to the Game Protection Fund attributable to the watercraft sales and use tax and from the portion of the general sales tax dedicated to the Fund by Code. This reflects a biennial reduction of \$400,000 compared to Chapter 836 of the 2017 Acts of Assembly.

Additional transfers to the general fund include \$20.0 million in un-refunded marine fuels sales, \$4.0 million reflecting the decline in the cost of the telecommunications relay services program at the Department for the Deaf and Hard-of-Hearing, and \$1.0 million in revolving trust fund savings at the Office of the Attorney General.

Also reflected in Chapter 2 of the 2018 Special Session I Acts of Assembly (HB 5002) is a reduction in the transfer from the court debt collections program at the Department of Taxation of \$1.0 million each year, lowering the biennial transfer to \$8.2 million. Finally, the proposed budget restores the remaining interest earnings from higher education accounts that had been retained by the general fund, reducing those transfers by \$500,000 each year. The remaining actions are customary transfers and technical updates.

Transfers in Chapter 2 (HB 5002, as Adopted)

0.375 Percent Sales Tax - Public Education	\$781.9
ABC/Wine to DBHDS for Substance Abuse	149.0
ABC Profits	225.3
Children's Health Insurance Program	(28.1)
Watercraft Sales and Use Tax	(9.0)
Transfer Sales Tax to Game Protection Fund	(24.7)
Un-refunded Marine Fuels	20.0
Local and Transportation Sales Tax Compliance	17.9
NGF Indirect Costs	25.9
\$4 for Life Transfer	21.0
Trauma Center Fund	16.1
Court Debt Collections	8.2
Uninsured Motorists Fees	14.8
IDEA Fund Transfer	13.0
ABC Operational Efficiencies	7.7
Telephone Relay Service Savings	4.0
Land Preservation Fund Transfer	1.2
Miscellaneous Other	<u>7.8</u>
Total	\$1,252.0