

Resources

The proposed 2018-20 budget includes \$42.5 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation (2018-20 biennium, \$ in millions)	
Beginning Balance	\$201.6
Adjustments to the Balance	21.5
Official GF Revenue Estimate	40,988.8
Transfers	<u>1,241.4</u>
GF Resources Available for Appropriation	\$42,453.3

Available Balance

The budget, as introduced, includes a projected beginning balance of \$201.6 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, offset by the proposed spending included in HB/SB 29.

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 will be 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 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 2016-2018, which lowers forecasted revenues by \$201.0 million in FY 2019 and \$209.0 million in FY 2020.

After proposed tax policy changes, technical adjustments, and adjusting for the shortfall in collections from Tax Amnesty in FY 2018, revenue growth of 4 percent is required to meet the budget forecast each year, with projected collections totaling \$20,096.5 million in FY 2019 and

\$20,892.3 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%

Forecast of General Fund Revenues Projected Growth (2018-20 biennium, \$ in millions)				
	<u>FY 2019</u>	<u>% Growth</u>	<u>FY 2020</u>	<u>% Growth</u>
Net Individual	\$14,110.4	4.6%	\$14,785.6	4.8%
Corporate	912.0	4.3%	926.4	1.6%
Sales	3,547.1	2.6%	3,625.0	2.2%
Insurance	376.6	4.0%	384.6	2.1%
Recordation	407.2	0.0%	407.2	0.0%
All Other	<u>743.2</u>	1.1%	<u>763.5</u>	2.7%
Total Revenues	\$20,096.5	4.0%	\$20,892.3	4.0%

Proposed Tax Policy Changes Assumed in Revenue Forecast

HB/SB 30 contains very few proposed tax policy changes. A total of \$19.1 million is added to the biennial revenue forecast based on three tax-related initiatives. The first simply reflects

advancing Virginia's fixed dated conformity with the federal tax Code to December 1, 2017, which 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. The second proposal is an initiative at the Virginia Department of Taxation to expand audit efforts which they anticipate will produce \$7.9 million in additional revenue in FY 2019 and \$10.6 million in additional revenue in FY 2020. The effort will include the hiring of 8 additional personnel: six auditors, a data scientist and a team lead to spearhead the efforts which focuses on expanded individual audits. The final change relates to expanding notification of payroll system breaches to avert refund fraud and is anticipated to generate \$300,000 in each year of the biennium.

Transfers

Proposed transfers to the general fund total \$1,241.4 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.

HB/SB 30 proposes 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.

Also reflected in HB/SB 30 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 transfer actions are customary transfers that have not been adjusted beyond technical updates compared to the amounts transferred in Chapter 836.

Proposed Transfers in HB/SB 30, as Introduced

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)
Unrefunded Marine Fuels	14.8
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
Land Preservation Fund Transfer	1.2
Miscellaneous Other	<u>6.4</u>
Total	\$1,241.4