Resource Changes for 2010-2012

The revenue reforecasting process undertaken in Fall, 2010 resulted in an increase in the estimated general fund tax revenues of $408.9 million over the biennium. After adjustments to transfers, carry forward balances and proposed tax policy changes, total general fund resources available for appropriation are $395.9 million more than assumed when Chapter 874 was adopted by the 2010 General Assembly.

Increase in General Fund Resources
Available for Appropriation for 2010-2012
($ in millions)

	Original Amount	Revised Amount	Difference
June 30, 2010 Balance	$ 132.2	$ 491.2	$359.0
Adjustments to the Balance	523.1	222.7	(300.4)
Official Revenue Estimates*	29,886.6	30,169.6	283.0
Appropriation Act Transfers	859.1	913.4	54.3
GF Resources Available for Appropriation	**$31,401.0**	**$31,796.9**	**$395.9**

*Note: Official revenue estimate assumes passage of tax policy changes proposed in HB 1500/SB 800.

After the resource adjustments and all proposed spending and savings amendments are taken into consideration, the remaining unappropriated balance at the end of the biennium is $4.1 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 of 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.

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

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 five 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 adopted and proposed tax policy changes, is 5.2 percent for FY 2011 and 5.0 percent for FY 2012, with a corresponding revenue increase of $408.9 million (not including transfers). When adopted and proposed tax policy changes (proposed changes are outlined in the following table) and other revenue adjustments are included, the revenue growth rates are 3.5 percent for FY 2011 and 5.0 percent for FY 2012.

Beyond proposed tax policy changes that reduce general fund revenues by $54.2 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, and a loss of $20.0 million in FY 2011 from cancelling the sale of the Brunswick correctional facility. As outlined in the table below, net revenue adjustments total $283.0 million over the biennium.

Changes in GF Revenue
($ in millions)

	FY 2011	FY 2012	Biennial
Oct/Dec Forecast Changes	$209.1	$199.8	$408.9
Cancellation of Brunswick correctional facility sale	(20.0)	0.0	(20.0)
Interest from NGF accounts	(25.0)	(25.0)	(50.0)
Miscellaneous technical	(1.5)	(0.2)	(1.7)
Tax Policy Changes:			
Advance federal fixed-date conformity	(19.2)	(8.2)	(27.4)
Conform to EITC	(6.2)	0.0	(6.2)
Data Ctr Sales Tax Exemption	(3.3)	(7.0)	(10.3)
Virginia Port Tax Credit	0.0	(5.0)	(5.0)
Winery Tax Credit	0.0	(0.3)	(0.3)
Refundable R &D Tax Credit	0.0	(5.0)	(5.0)
Total Revenue Changes	**$133.9**	**$149.1**	**$283.0**

Tax policy changes are comprised of two primary categories: (1) reflection of a decrease in revenues due to federal and state law changes, and (2) tax incentives associated with the Governor's economic development initiative. The amendments to advance the fixed date conformity with federal law reduce general fund revenue by $27.4 million over the biennium. 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. (This does not include any assumptions about the extension of the Bush tax credits or other changes proposed by Congress as this legislation had not been finalized at the time the budget amendments were finalized.) 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.

New tax policy proposals include three economic development incentives that would impact FY 2012 revenues. First, a proposed 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 also would reduce tax collections by $5.0 million in FY 2012. Finally, a proposal to provide 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 proposed tax policy changes result in the following revenue changes by source:

GF Revenue Changes by Source
($ in millions)

	FY 2011	FY 2012	Biennial
Withholding	$95.3	$170.3	$265.6
Nonwithholding	(3.3)	(58.8)	(62.1)
Refunds	2.1	(29.9)	(27.8)
Net Individual Income	$94.1	$81.6	$175.7
Sales	$133.8	$141.3	$275.1
Corporate	(11.3)	(14.3)	(25.6)
Wills (Recordation)	(40.0)	(19.9)	(59.9)
Insurance	3.3	(1.8)	1.5
All Other Revenue	(46.0)	(37.8)	(83.8)
Total Revenue Changes	**$133.9**	**$149.1**	**$283.0**

Adjustments to Balance

As adopted by the 2010 General Assembly, Chapter 874 assumed adjustments to balances totaling $523.1 million over the biennium. The majority of these balances resulted from changes to payments to the Virginia Retirement System (VRS) and other related fringe benefit savings. Changes to the VRS payments proposed in House Bill 1500/Senate Bill 800 reduce balance transfers by $175.8 million in FY 2011 and $124.6 million in FY 2012, resulting in net balance transfers of $77.9 million in FY 2011 and $144.7 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.

Other adjustments include the use of $82.2 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 $8.9 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 $122.9 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 the proposed VRS system changes is included in Central Accounts.)

Adjustments to Balance
(2010-12 biennium, $ in millions)

Changes to Balance:	
Technical: Add FY 11 Payroll Reserve	$ 83.1
December 2010 3% Employee Bonus	(82.2)
Supplemental GF/NGF VRS Payments	(122.9)
Reappropriation of Mandatory Op Balances	(70.1)
Reappropriation of Discretionary Operating Balances	(17.3)
Reappropriation of Capital Outlay and Planning	(8.8)
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	(1.7)
Total Adjustments	**($300.4)**

Changes in Transfers

The largest adjustment is transfer of $18.2 million from nongeneral funds that had been appropriated to pay the "employee" share of VRS contributions. This action reflects the Governor's proposal to have the employee pay the 5 percent portion of VRS contributions that the state had been paying on the employee's behalf. The transferred amounts are used in part to support an increase in the state's payment to the VRS for the "employer" contribution.

Many of the other 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, 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. Other major adjustments include assumed revenues of $10.3 from the sale of the ABC property in Alexandria, and $2.6 million from sale of two State Police helicopters. Finally, also included is an increase in the transfer of SCC balances to the general fund of $3.3 million in FY 2012, and the transfer of $5.0 million in State Bar special fund balances.

Changes in Transfers
(2010-12 biennium, $ in millions)

Transfer of Employee Retirement Savings	$18.2
Transfer of ¼ cent sales tax to GF	17.7
ABC Sale of Alexandria Office	10.3
Transfer State Bar Special Funds	5.0
Proceeds from sale of two state helicopters	2.6
SCC Balance Transfer	3.3
DOC Transfer to GF	1.5
Reflect ABC transfer to Wine Board	(2.7)
Reduced ABC profits	(1.5)
Total Transfer Changes	**$54.3**