General Fund Revenues Available for Appropriation

The adopted budget adds $1,006.3 million in additional revenues to the forecast included in the budget last year. Of this total, $851.2 million comes from upward revisions in the revenue forecast for FY 1999 and FY 2000. About $156.7 million comes from the revenue surplus at the end of FY 1998.

General Fund Revenues Available for Appropriation ($ in Millions)

	As Adopted	Change From Chapter 1 (1998)
Unappropriated and Additions to the Balance	$ 944.8	$ 175.4
Official Revenue Estimates	19,553.0	851.2
Transfers	793.2	(20.3)
Total General Fund Revenues Available for Appropriation	$ 21,291.0	$ 1,006.3

Additions to the Balance

The increased balance of $175.4 million results primarily from: (1) the $156.7 million revenue surplus from FY 1998; (2) $39.8 million in agency balances that were not re-appropriated to the agencies; (3) $17.8 million in balances anticipated through legislative action; and (4) a $35.6 million reduction in balances resulting from a delay in federal approval of the use of TANF funds for the earned income tax credit (HB 848, 1998). This balance reduction is offset by an increase in GF revenue. Therefore, there is no actual impact on revenues available for appropriation.

General Fund Revenue Growth

The adopted budget anticipates an additional $851.2 million in general fund revenues beyond the amount projected last year. Additional revenues result primarily from the FY 1998 surplus, which increases the revenue base going forward; higher than projected growth in wages and salaries; and continued good prospects for income growth due to capital gains.

	FY 1999 Official	FY 1999 Revised
Wage and Salary Growth	6.3%	7.5%

Overall, the new forecast assumes general fund revenue growth of 8.9 percent in FY 1999 and 5.0 percent in FY 2000.

Tax Policy Changes

Included in the revenue estimates are several tax policy changes that reduce general fund revenues by a total of $45.3 million in FY 2000. Since all of the tax policy changes take effect beginning January 1, 2000, the full year cost is not reflected in the biennial budget ending June 30, 2000. The following table shows the FY 2000 and full year FY 2001 cost for each change.

Tax Policy Changes in the Adopted Budget
($ Millions)

	FY 2000	FY 2001
Sales Tax Reduction on Food	(26.3)	(63.6)
If 2nd 0.5% Reduction Occurs 4/1/00		*(74.4)*
Unemployment Benefits Subtraction	(3.3)	(7.5)
Sales Tax Exemp. for Internet Providers	(1.1)	(2.7)
Taxation of Electric Utilities	0.0	(16.9)
Credit for Taxes Paid to Other States	(0.5)	(1.0)
Historic Rehabilitation Credits	($0.8)	($0.7)
Interest Equalization for Tax Due/Refund Payable	(1.4)	(2.8)
Corp. Income Tax Apportionment Double-Weight Sales Factor	(7.2)	(14.6)
$15,000 Military Pay Exclusion	(4.7)	(9.4)
Total	($45.3)	($119.2)

The General Assembly adopted a 2.0 percent phased reduction in the sales tax on food for home consumption (SB 735/HB 1601). Beginning January 1, 2000 the tax will be reduced from 4.5 percent to 4.0 percent. The remaining three 0.5 percent sales tax reductions will occur April 1, 2001 and each subsequent April 1, if the two preceding fiscal year revenue surplus is at least one percent.

The General Assembly adopted several other tax reductions -- an income tax subtraction for unemployment benefits (HB 1487); a sales tax exemption for equipment purchased by Internet providers (HB 1713); and, an expanded income tax credit for taxes paid to other states (HB 2223), that beginning January 1, 2000, would include all taxable income.

The change to the historic rehabilitation tax credit would allow partnerships to allocate the tax credits to their best tax advantage, rather than having to allocate the credits based on ownership percentages.

Currently, the Tax Department charges higher interest rates on overdue tax due payments then it pays on taxpayer refunds. The General Assembly adopted legislation that would equalize the interest rates so they are the same for both tax dues paid by taxpayers and tax refunds payable by the state.

Corporate income for tax purposes is currently apportioned to Virginia by a three-factor formula that equally weights employment, sales, and property. The legislature enacted a formula that double-weighted the sales factor, beginning January 1, 2000. The revised apportionment formula would be weighted 50 percent sales, 25 percent employment, and 25 percent property. The effect of this change would be to reduce corporate income taxes on those companies that export the bulk of their production out-of-state, and increase corporate income taxes on distribution or wholesale companies located within the state.

The legislature adopted, beginning January 1, 2000, a $15,000 individual income tax exclusion for active-duty military basic pay. The exclusion would decline dollar-for-dollar when basic pay exceeds $15,000, and would phase out entirely when basic pay equals $30,000.

All other revenue changes are listed on the table at the end of this section, and include $23.0 million in income tax revenue from allowing past lottery winners to convert their annuity payments to a lump sum payment; $7.3 million from re-calculating the actual timing of how taxpayers claim Enterprise Zone, Housing, and Historic Rehabilitation tax credits; $5.0 million from a Virginia Power rate reduction agreement; and $6.9 million in additional Medicaid recoveries.

Transfers

General fund transfers are reduced by $20.3 million, primarily from a projected lottery profit shortfall of $36.0 million in FY 1999 and $34.7 million in FY 2000. The lottery reduction is predicated on a historically low interest rate forecast which also assumes lower Lotto and Big Game jackpots (and thus lower sales). In addition, most Virginia daily and scratch lottery games are maturing and experiencing flat to lower sales. The revised projection assumes lottery profits of $314.4 million in FY 1999 (including a $5.0 million reserve elimination), and $310.3 million in FY 2000.

Significant increases affecting transfers include $7.0 million that is moved from the Water Quality Improvement Fund for appropriation to combined sewer overflow projects; $6.0 million from additional contract prison revenues, $4.2 million from various Internal Service fund balances; and $1.3 million from non-general fund auto insurance balances.

Other changes to transfers are listed in the table at the end of this section.

Changes in Revenues
Available for Appropriation
(Since April, 1998)

Additions to Balances

Amendment	$ Millions
FY 1998 Surplus Revenues	$ 156.7
Discretionary Reappropriations Withheld	27.5
Compensation Board Reversion	19.5
Dept. of Social Services	3.4
Dept. of Health Reversion	2.3
Capital Outlay Balances	1.8
Legislative Agency Balances	1.5
DEQ Wastewater loan not executed	1.8
Va Racing Commission Loan Repayment	0.2
Dept. of Education balances	0.2
Secy. of HHS	0.1
Relief Bills	(0.2)
DOC Agribusiness (correct coding error)	(0.2)
Federal Cash Management Act	(0.4)
Hurricane Bonnie	(3.2)
EITC Delayed Federal Approval	(35.6)
Total Addition to Balance Changes	$ 175.4

Revenues

Amendment	$ Millions
December Revenue Forecast	$ 723.1
Mid-Session Re-forecast	81.6
EITC Delayed Federal Approval	35.6
Income Tax on Lottery Lump Sum Payments	23.0
Interest Earnings Recalculation	9.9
Medicaid Recoveries	6.9
Virginia Power Refund	5.0
Enterprise Zone-Timing of Credits	4.1
Juvenile Crime Control Act	3.0
Housing Tax Credit- Timing of Credits	2.0
DOC-Increased INS Revenue	1.9
Bank Franchise Tax (SB 1017)	1.5
Historic Rehab-Timing of Credits	1.2
Elko Tract Land Sale	1.1
UNIX Server Recovery from Feds – DSS	0.8
Insurance Premiums Retaliatory Tax Credit	0.4

State Police-CCRE Revenue	0.4
External Investment Manager	0.2
Investment Managers Selection (Legis.)	0.1
Va. Education Savings Trust (Legis.)	(0.1)
Water Supply Assistance Grant Fund (HB 2242)	(0.4)
Credit for Taxes paid to Other States (HB 2223)	(0.5)
Sales Tax Exemption for Internet Prov. (HB 1713)	(1.1)
Operations of Racetrack	(1.6)
Tax Due / Payable Interest Equalization (Legis.)	(1.4)
Subtraction for Unemployment Benefits (HB 1487)	(3.3)
Historic Rehab. Tax Credit (Legis. / use)	(3.8)
Military Pay Exclusion (Legis.)	(4.7)
Double Weight Sales Factor (Legis.)	(7.2)
Reduce Sales Tax on Food (SB 735)	(26.3)
Total Revenue Changes	$ 851.2

Transfers:

Amendment	$ Millions
Capital Expenditure Fund Veto (SB 476)	$ 19.9
Water Quality Fund Transfer for CSO	7.0
DOC-INS Revenue	6.7
Contract Prison Revenues	6.0
DGS-Internal Service Fund Balance-Maint. Fund	2.6
Auto Insurance NGF Balances	1.2
Self Insurance Balances	1.1
MH&MR Special Fund Balances	1.0
DGS-Internal Service Fund Balance-Warehouse	1.0
ABC Fund Transfer-VA Winegrowers Board	1.0
DEQ-Air Pollution Permit Program	1.0
VPSA-Excess Balances in VPSA GF	1.0
Teacher Liability Program	0.8
NGF Indirect Costs	0.7
DHCD-Unclaimed Va. Econ. Dev. Loan Balances	0.6
DGS-Internal Service Fund Balance-Consol. Labs	0.5
Contract Collector Costs at Tax	0.5
AG-Special Fund Balances	0.4
Unrefunded Marine Fuels	0.3
DGS-Internal Service Fund Balance-Surplus Prop	0.1
Local Sales Tax Compliance	(0.1)
Unclaimed Property from Lottery Prizes	(0.4)
DIT Rate Reduction	(0.5)
Virginia Power Refund Disbursement	(2.0)
Lottery Profits	(70.7)
Total Transfer Changes	$ (20.3)

* *Totals may not add due to rounding.*