

# Revenues

The 2000-2002 budget, as introduced, projects \$24,732.5 million in general fund revenues, transfers, and balances available for appropriation.

<b>General Fund Revenue Available for Appropriation (\$ millions)</b>	
Available Balances	\$ 611.8
Revenue Estimates*	23,415.5
Transfers	<u>705.1</u>
<b>Total General Fund Revenues</b>	<b>\$ 24,732.5</b>
*Assumes passage of certain tax policies and a portion of the Tobacco Settlement proceeds	

## Available Balances

As introduced, HB/SB 30 includes \$611.8 million in balances that are expected at the end of the current biennium, \$509.5 million of which comes from an estimated increase in the revenue forecast for FY 2000.

Another \$103.3 million results from the FY 1999 revenue surplus, and is required to be deposited into the Revenue Stabilization Fund in the first year of the 2000-2002 biennium. The budget proposes a second year appropriation to the Revenue Stabilization Fund of \$96.8 million, based on current projections of revenue growth for FY 2000.

## Revenue Growth

The general fund revenue forecast of \$23,415.5 million projects overall growth rates of 6.6 percent for FY 2001 and 6.8 percent for FY 2002. The forecast assumes continued strong job and wage growth, with low inflation through FY 2002, and no downturns in the economy or stock market. The official revenue forecast also incorporates a portion of the Commonwealth's Allocation of the Tobacco Settlement as general fund revenue. It also reflects a number of tax policy changes that will go into full effect in the next biennium.

**Commonwealth's Allocation of Tobacco Settlement.** A total of \$235.3 million is reflected in the proposed 2000-02 budget from the Tobacco Master Settlement Agreement (MSA). Of this amount, 60 percent has been earmarked

through legislation for deposit to specific Trust Funds, and is reflected as a nongeneral fund revenue. The remaining \$63.2 million is included as general fund revenue. Included in this total is the 40 percent that has not been designated in FY 2001, and the balance or residual that would remain in FY 2002, after securitization of 40 percent of MSA revenues has occurred. The Settlement distribution included in HB/SB 30 is as follows:

- The Tobacco Idemnification and Revitalization Fund would receive 50 percent of the funding, or an estimated \$143.4 million;
- The Tobacco Settlement Foundation Fund would receive 10 percent of the funding, or an estimated \$28.7 million; and
- The general fund would receive 40 percent in FY 2001, or an estimated \$51.6 million. In FY 02, \$11.6 million is included to represent the estimated portion remaining after the proposed asset sale.

**Tax Policy Changes.** The recommended general fund budget includes a net impact of \$290 million in tax policy changes in the 2000-02 biennium. This includes \$339 million in tax relief from legislation previously passed by the General Assembly, and \$49 million in additional general funds that result from assumed legislative changes. (The Personal Property Tax Relief program is included as a \$1.4 billion appropriation to localities in the operating portion of the budget).

Three new tax policy changes are assumed in the budget, as introduced:

- 1) Deferral of the scheduled law change which would allow individuals to adjust the number of personal exemptions claimed according to an estimate of their final tax liability. This withholding change has been deferred each biennium since its original January 1991 effective date. Projected general fund revenues would be increased by \$49.5 million from this change.
- 2) Elimination of the VHDA low-income housing credit for both individuals and businesses. This change would increase general fund revenue estimates by \$2.0 million.
- 3) Creation of a Technology Intern Program, which would provide tax credits to businesses and students, with an estimated general fund revenue reduction of \$2.5 million in FY 2002.

Other significant tax policy changes reflected in the general fund revenue estimate include:

- **Reduction in Sales Tax on Food.** Effective January 1, 2000, the 4.5 percent sales tax on food is reduced to 4.0 percent as a result of legislation adopted by the 1999 General Assembly. This first 0.5

percent reduction has an estimated revenue impact of \$125.7 million in the 2000-02 biennium. Three additional increments of 0.5 percent will occur on April 1, in years where the prior year revenue collections exceed the official estimate by at least one percent. The Department of Taxation estimates the total annual revenue impact of the 2.0 percent reduction at \$273 million, when fully phased in.

- ***Income Tax Subtraction for Military Wages.*** The 1999 General Assembly adopted, beginning January 1, 2000, a \$15,000 individual income tax subtraction for active-duty military basic pay. The subtraction declines dollar-for-dollar when basic pay exceeds \$15,000 and phases out entirely when basic pay equals \$30,000. The estimated revenue impact of this subtraction is \$19.1 million in the 2000-02 biennium.
- ***Double-Weighted Sales Apportionment Factor.*** This tax policy change, first enacted by the 1998 General Assembly, and reenacted last session, allows corporate income tax to be calculated with a higher weight for sales than for property and payroll. The effect of this change is to reduce corporate income taxes for companies that export the bulk of their production out-of-state, resulting in an estimated \$41.5 million impact in the 2000-02 biennium.
- ***Electrical Utility Deregulation.*** The 1999 General Assembly changed electric utility taxes from a gross receipts and special assessment tax to a consumer consumption and corporate income tax, effective January 1, 2001. The estimated impact is \$29.9 million in the 2000-02 biennium.
- ***Coalfield Employment Enhancement Tax Credit.*** This credit against income taxes for Virginia producers of coal and coal methane gas will increase from 50 percent of allowable credits in the current biennium to 75 percent in tax years 2001 and 2002. The estimated impact is \$24.4 million in the 2000-02 biennium.

Other tax policy actions also affect the revenue forecast for 2000-02 biennium. The table on the next page details the complete list.

**Tax Policy Actions  
Affecting General Fund Revenue Estimates**

	<u>\$ Millions</u>
<b>Proposed Tax Policy Changes</b>	
Defer Income Tax Withholding Change	\$49.5
Eliminate VHDA Low-Income Housing Credit	2.0
Technology Intern Program Tax Credit	<u>(2.5)</u>
<b>Total Proposed Changes</b>	<b>\$49.0</b>
<b>Previously Enacted Tax Policy Actions</b>	
Reduction in Sales Tax on Food	(125.7)
Income Tax Subtraction for Military Pay	(19.1)
Double-Weighted Sales Apportionment Factor	(41.5)
Electrical Utility Deregulation	(29.9)
Coalfield Employment Enhancement Tax Credit	(24.4)
Higher Education Trust Fund	(6.4)
Income Tax Subtraction for State/Federal Employees	(2.2)
Income Tax Subtraction for Unemployment Benefits	(15.4)
Interest Equalization	(5.8)
Virginia Educational Savings Trust (VEST)	(0.4)
Income Tax Credit for Other States	(2.0)
Enterprise Zone -- Small Business (individual & corporate)	(22.0)
Non-prescription drug sales tax exemption	(24.1)
Optometrists & Medical Practitioners sales tax exemption	(3.0)
Apportionment of Historic Rehabilitation tax credits	(0.7)
Sales tax exemption /For-Profit Hospital Use of Drugs	(3.4)
Sales tax exemption /Equipment Used in Internet Services	(5.0)
Retaliatory Tax on Insurance Companies	(4.8)
Expanded Historic Rehabilitation Credits	<u>(3.2)</u>
<b>Total Previously Enacted</b>	<b>(\$339.0)</b>
<b>Net Revenue Change</b>	<b>(\$290.0)</b>

Finally, the budget includes funding for a \$10 million tax credit in FY 2002 for teleworking initiatives in areas of the state that do not meet air pollution

standards. The credit is to be financed from the proposed Priority Transportation Fund.

After incorporating the above tax policy changes, general fund revenues are projected to grow by 6.6 percent and 6.8 percent, respectively, in the first and second year of the biennium.

<b>Forecast of General Fund Tax Revenues</b>					
<b>(\$ in Millions)</b>					
	<b><u>FY00</u></b>	<b><u>FY01</u></b>	<b><u>Percent Growth</u></b>	<b><u>FY02</u></b>	<b><u>Percent Growth</u></b>
Net Ind. Income	\$6,757.8	\$7,394.0	9.4%	\$7,980.6	7.9%
Corp. Income	475.1	464.8	(2.2)	470.2	1.2
Sales	2,205.6	2,313.6	4.9	2,465.2	6.6
Insurance Prem.	249.6	261.1	4.6	256.0	5.8
Public Service	<u>121.4</u>	<u>89.9</u>	<u>(25.9)</u>	<u>123.3</u>	<u>1.8</u>
Major Taxes	\$9,809.5	\$10,523.4	7.3%	\$8,914.5	6.3%
Other	<u>782.2</u>	<u>766.3</u>	<u>(2.0)</u>	<u>631.8</u>	<u>1.8</u>
Total Taxes	\$10,591.7	\$11,289.7	6.6%	\$12,062.6	6.8%
Tobacco Settlement	<u>\$66.6</u>	<u>\$51.6</u>		<u>\$11.6</u>	
<b>Total GF Rev.</b>	<b>\$10,658.3</b>	<b>\$11,341.3</b>		<b>\$12,074.2</b>	

### **Economic Scenario Associated with the Revenue Forecast**

Virginia's revenue forecasting process involves projections of national economic conditions, use of an econometric model to anticipate Virginia's economic outlook, and review of economic and business data by several Governor's advisory boards. The Governor's Board of Economists reviews the underlying economic variables that drive the official forecast, and the Governor's Advisory Council on Revenue Estimates determines whether the revenue estimates prepared by the Department of Taxation is reasonable in light of current business conditions.

In FY 1999, economic growth was better than expected, both for the U.S. and Virginia. Virginia employment growth reached 2.7 percent, personal income

grew 7.0 percent, and wages and salaries grew 9.8 percent. Virginia continues to be "above trend" in its economic growth, fueled in part by low inflation and increased productivity, in addition to strong personal income growth. Virginia is expected to continue outperforming the nation over the forecast period.

<b>Growth in Actual and Forecast Selected U.S. and Virginia Economic Statistics (Percent Growth Over Prior Year)</b>				
	<b>Actual</b>		<b>Estimated</b>	
	<b><u>FY 1999</u></b>	<b><u>FY 2000</u></b>	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>
Real GDP	3.9%	3.2%	2.5%	2.9%
U.S. Personal Income	5.0	5.0	5.1	5.2
Va. Personal Income	7.0	6.5	6.0	5.7
Va. Wages and Salaries	9.8	8.7	6.9	6.5
Va. Employment	2.7	2.4	1.7	2.0
Source: WEFA Group's October 1999 Standard Forecast and Virginia Department of Taxation				

### **Transfers**

Transfers to the general fund during the 2000-2002 biennium are projected at \$705.1 million. Of this amount, \$620.6 million is expected from Lottery profits, which are expected to remain at the FY 2000 level of \$310.3 million per year. Other major transfers include \$45.4 million from estimated Alcohol Beverage Control (ABC) profits and \$21.8 million transferred from ABC revenues to support substance abuse programs.

The proposed budget assumes continuation of the \$9.0 million per year transfer from the Literary Fund for public school construction and transfers \$3.2 million of Contract Prisoner Special Revenues in the first year and \$1.5 million in the second year (down from \$21.4 million in the current year).

Other transfers are detailed below and reflect traditional policies, with the exception of an additional \$21.5 million transfer of general fund revenues to the Game Protection Fund. This additional amount reflects action of the 1999 General Assembly to make sales tax collections on hunting and wildlife equipment available to the Game Protection Fund. Prior action made sales tax proceeds from small watercraft available to the fund.

**Proposed Transfers in HB/SB 30,  
As Introduced  
(\$ in millions)**

Lottery Proceeds	\$620.6
ABC Profits	45.4
ABC to MHMRSAS	21.8
Literary Fund Transfer	18.0
Contract Prisoners Special Revenue Fund	4.7
Unfunded Marine Fuels	12.3
Transportation Sales Tax Compliance	4.6
NGF Indirect Cost Recovery	13.6
Local Sales Tax Compliance	10.2
Payroll & Other Central Agency Services	2.1
IHRIS Recovery NGFs & Loan Repayment	(1.0)
GF Transfer to Children's Health Program	(17.3)
GF Transfer to Game Protection Fund	(31.7)
Other transfers and deposits	<u>1.8</u>
<b>Total Transfers Proposed</b>	<b>\$705.1</b>