

Revenues

The adopted 2000-02 budget projects \$24,981.9 million in general fund revenues, transfers, and balances available for appropriation. This total includes \$654.7 million in available balances from the 1998-00 biennium and \$106.4 million in additions to the balance during the 2000-02 biennium. Projected tax collections total \$23,506.1 million, and \$714.7 million in Lottery profits, ABC profits, and other transfers are included in the funds available for appropriation.

General Fund Revenue Available for Appropriation (\$ millions)	
Available Balances	\$ 761.1
Revenue Estimates	23,506.1
Transfers	<u>714.7</u>
Total General Fund Revenues Available for Appropriation	\$ 24,981.9

Available Balances

As adopted, the 2000-02 budget includes \$761.1 million in balances. The largest portion of this total comes from a \$633.4 million increase in the revenue forecast for FY 2000 since April 1999. Because very little of this revenue is needed in FY 2000, the bulk flows forward as a balance into 2000-02.

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 2000-02 biennium. The budget also includes a second year appropriation to the Revenue Stabilization Fund of \$163.1 million, based on current projections of revenue growth for FY 2000.

Revenue Growth

The general fund revenue forecast of \$23,506.1 million anticipates growth rates of 5.5 percent for FY 2001 and 6.9 percent for FY 2002. The forecast assumes continued strong job and wage growth, with low inflation through FY 2002. General fund revenues also incorporate a portion of the

Commonwealth's Allocation of the Tobacco Settlement and reflect a number of tax policy changes that will go into effect during the 2000-02 biennium.

Commonwealth's Allocation of Tobacco Settlement. A total of \$287.0 million is included in the adopted budget from the Tobacco Master Settlement Agreement (MSA). Of this amount, 60 percent has been earmarked through legislation for deposit to the following specific Trust Funds, and is reflected as nongeneral fund revenue. The remaining amount, or \$114.8 million, will be deposited in the General Fund.

- The Tobacco Idemnification and Revitalization Fund will receive 50 percent of the funding, or an estimated \$143.4 million; and
- The Tobacco Settlement Foundation Fund will receive 10 percent of the funding, or an estimated \$28.7 million.

Tax Policy Changes. The budget includes a number of changes affecting tax and revenue policies approved by the 2000 General Assembly. Increased income tax refunds of \$41.6 million will result from passage of the HB 160 Low Income Tax Credit. This legislation provides a \$300 credit for each personal and dependent exemption claimed with eligibility tied to taxpayers with incomes less than the federal poverty level.

The adopted budget also continues deferral until January 1, 2003, 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. Currently, a taxpayer can ask the Tax Commissioner to administratively increase his withholding exemptions, if cause can be shown.

Other tax policy changes assumed in the revenue estimate include:

- 1) *Neighborhood Assistance Act Extension.* HB 740 enacted during the 2000 Session extends the sunset date for the Neighborhood Assistance Act tax credit to July 1, 2002. The Act was currently set to expire July 1, 2000. The Act provides tax credits to business firms that contribute to approved neighborhood assistance organizations designed to benefit impoverished individuals. The credit can be applied against the income tax imposed on individuals, trusts, estates, and corporations, the bank franchise tax, and the gross receipts tax. The impact of the extension is an estimated revenue reduction of \$13 million for the 2000-02 biennium.

- 2) *Natural Gas Deregulation.* SB 185, modeled after the electric utility deregulation that was enacted during the 1999 Session, creates a “retail supply choice” program for natural gas customers. State and local gross receipts taxes and the special regulatory revenue tax will be replaced with a consumption tax on natural gas and a corporate income tax on gas utilities. The estimated revenue loss of \$4.8 million during the 2000-02 biennium results from the consumption tax exemption for governmental entities.

- 3) *Criminal Records Check.* SB 603/HB 1238 requires certain additional criminal records checks to be completed by the Division of State Police. These checks are focused on individuals caring for children and for local school division employees. Increased revenues generated from these checks total an estimated \$1.9 million.

Tax Policy Changes Adopted in 2000 Session General Fund Impact	
	<u>\$ Millions</u>
Enacted Tax Reductions:	
Income Tax Credit	\$ (41.6)
Neighborhood Assistance Act Extension	(13.0)
Natural Gas Deregulation	(4.8)
Sales Tax Exemptions	(0.8)
Criminal Records Check	1.9
Adopted Policy Deferrals:	
Income Tax Withholding Change	\$49.5

Other tax policy actions from previous legislation affect the 2000-02 revenue forecast, as shown on the following table.

**Major Tax Policy Actions Prior to 2000 Session
Affecting 2000-2002 General Fund Revenues**

Previously Enacted Tax Policy Actions	<u>\$ Millions</u>
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 & Production Incentive Tax Credit	(43.4)
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)	(35.2)
Non-prescription drug sales tax exemption	(24.1)
Optometrists & Medical Practitioners sales tax exemption	(3.0)
Historic Rehabilitation tax credits	(4.6)
Sales tax exemption /For-Profit Hospital Use of Drugs	(3.4)
Sales tax exemption /Equipment Used in Internet Services	(5.2)
Retaliatory Tax on Insurance Companies	(4.8)
Subordinated Debt and Equity Tax Credit	<u>(8.6)</u>
Total Previously Enacted	(\$380.7)

NOTE: The Personal Property Tax Relief Program ("Car Tax") is considered an expenditure program with an estimated impact of \$1.4 billion in the 2000-02 biennium.

**Forecast of General Fund Tax Revenues
(\$ in Millions)**

	<u>FY00</u>	<u>FY01</u>	<u>Percent Growth</u>	<u>FY02</u>	<u>Percent Growth</u>
Net Ind. Income	\$6,859.1	\$7,427.2	8.3%	\$8,007.8	7.8%
Corp. Income	479.3	464.7	(3.0)	476.1	2.5
Sales	2,205.6	2,313.6	4.9	2,465.2	6.6
Insurance Prem.	249.6	261.0	4.6	273.6	4.8
Public Service	<u>121.4</u>	<u>89.9</u>	<u>(25.9)</u>	<u>84.8</u>	<u>(5.7)</u>
Major Taxes	\$9,914.8	\$10,556.5	6.5%	\$11,307.5	7.1%
Other	<u>800.9</u>	<u>751.5</u>	<u>(6.2)</u>	<u>775.7</u>	<u>3.2</u>
Total Taxes	\$10,715.7	\$11,307.9	5.5 %	\$12,083.2	6.9%
Tobacco Settlement	<u>\$66.6</u>	<u>\$51.6</u>		<u>\$63.4</u>	
Total GF Rev.	\$11,782.3	\$11,359.5		\$12,146.6	

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 estimate 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's 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.

**Growth in Actual and Forecast
Selected U.S. and Virginia Economic Statistics
(Percent Growth Over Prior Year)**

	Actual		Estimated	
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
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 in the 2000-2002 biennium total \$714.7 million. Of this amount, \$620.6 million is expected from Lottery profits, which are projected to continue at the FY 2000 level of \$310.3 million per year. Other major transfers that routinely take place include \$49.8 million from Alcohol Beverage Control (ABC) profits and \$23.2 million transferred from ABC revenues to support substance abuse programs. In addition, an estimated \$18.0 million per year will be transferred from the Literary Fund to support a program of financial assistance for public school facilities.

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
(\$ in millions)

Lottery Proceeds	\$620.6
ABC Profits	49.8
ABC to MHMRSAS	23.2
Literary Fund Transfer	18.0
Contract Prisoners Special Revenue Fund	5.4
Unfunded Marine Fuels	12.9
Transportation Sales Tax Compliance	4.6
NGF Indirect Cost Recovery	13.6
Local Sales Tax Compliance	10.2
Payroll & Other Central Agency Services	4.3
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>2.1</u>
Total Transfers Proposed	\$714.7