General Fund Revenues Available for Appropriation

The budget, as introduced, projects a $241.8 million increase in general fund (GF) revenues available for appropriation, bringing total biennial GF revenues to $25.2 billion.

General Fund Revenues Available for Appropriation
($ in millions)

	As Introduced	Change from Ch. 1073	
Official Revenue Estimate	$23,600.2	$94.1	
GF Tax Revenue			(449.3)
Revised Fiscal Impact of Tax Policies			34.8
Other Revenue Adjustments			48.6
Proposed Securitization of Tobacco Settlement Revenues (40% GF share)			460.0
Available Balances	903.7	144.3	
Transfers	$718.0	3.4	
General Funds Available for Appropriation	**$25,221.9**	**$241.8**	

The introduced budget includes a downward revision of $449.3 million in GF tax revenue, reflecting slowing economic growth and relatively weak revenue collections to date. The revised forecast assumes growth rates of 3.4 percent in FY 2001 and 6.9 percent in FY 2002.

These lower tax revenues are offset by (1) revised estimates of the fiscal impact of certain tax policy changes that have already been enacted ($34.8 million); (2) several miscellaneous revenue adjustments ($48.6 million); and (3) a proposed securitization of future Tobacco Master Settlement Agreement payments, generating a projected one-time GF revenue gain of $460.0 million.

Adjustments to available balances contribute $144.3 million to the increase in revenues available for appropriation. Included in this total is $81.4 million from the reversion of GF and NGF capital outlay appropriations from this biennium and 1998-00. Most of these cash appropriations for capital projects would be replaced by proposed bond issues.

Additional transfers account for the remaining $3.4 million of increased GF revenue. Revenue from out-of-state inmates is projected to increase by $13.9 million, resulting from additional prisoners, productivity savings, and the use of a $6.0 million treasury loan to cover accrued FY 2002 revenue that will be received in FY 2003. A re-estimate of Lottery profits produces $7.4 million. These transfer gains are partially offset by a redirection of unclaimed Lottery prizes to the Literary Fund.

The Economy and Lower GF Tax Revenue

The introduced budget assumes that GF tax revenues will be $449.3 million less than the official forecast from the 2000 Session -- a decrease of $217.5 million in FY 2001 and another $231.8 million in FY 2002.

Economic Factors. The downward revenue adjustment results from slowing economic growth in Virginia. Non-agricultural employment grew 2.7 percent in FY 2000, but is expected to slow to 2.0 percent in FY 2001. Many of the variables that serve as the economic basis of the revenue forecast are also projected to slow in the forecast period when compared to recent fiscal years.

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

	Actual		Estimated	
	FY 1999	FY 2000	FY 2001	FY 2002
Real GDP	4.0%	5.2%	4.4%	3.4%
U.S. Personal Income	6.0	5.9	6.5	5.2
Va. Personal Income	7.1	5.9	6.2	5.9
Va. Wages and Salaries	8.6	6.6	6.8	6.7
Va. Non-Agricultural Employment	3.1	2.7	2.0	2.3

Source: WEFA Group's October 2000 Standard Forecast and Virginia Department of Taxation

Revenue Collections. Lagging revenue collections during calendar year 2000 also point to a slowing economy. Signs that GF tax revenue growth was beginning to moderate surfaced during the last half of FY 2000. However, lagging collections were offset by one-time revenue events in such areas as corporate income and refunds.

Through the first five months of FY 2001, revenues have grown 3.2 percent -- well below the 5.5 percent growth needed to meet the official revenue estimate embedded last year in Chapter 1073.

Revenue Collections Thus Far in FY 2001

	Actuals Thru Nov., 2000	**Official Forecast FY 2001**	**Proposed Budget FY 2001***
Net Ind. Income	4.4%	8.6%	6.4%
Sales	4.8	5.1	3.6
Corporate	(11.8)	(18.4)	(15.8)
Total GF Taxes	**3.2%**	**5.5%**	**3.4%**

*Percentages represent economic GF tax forecast prior to other revenue and tax policy adjustments.

The underlying economic forecast in the introduced budget retains the 6.9 percent growth assumption for FY 2002 that was included in Chapter 1073.

Revised Fiscal Impact of Tax Policy Changes

Revisions to several tax policy changes already enacted help to offset the forecast of a slowing economy. Three revisions totaling $34.8 million, include:

1) A reduction of $33.0 million in the estimated revenue impact of the first one-half percent cut in the sales tax on food. The biennial revenue impact was originally estimated at $125.7 million. It is now estimated to be $92.7 million, after 11 months of actual history.

2) A reduction of $3.0 million in the estimated fiscal impact of the 1998 enterprise zone tax credit, based on two years of actual collection history.

3) A $1.2 million cost increase in the fiscal impact of natural gas deregulation, enacted during the 2000 Session, based on a methodological update by the Department of Taxation.

Miscellaneous and Other Revenue Adjustments

Miscellaneous adjustments add $48.6 million in GF revenue to the forecast in the proposed budget. The two largest revenue-producing adjustments, totaling $57.4 million, result from additional Medicaid federal reimbursements.

Medicaid Recoveries. The Department of Medical Assistance Services (DMAS) has recalculated the Medicaid cost recoveries it expects during the 2000-02 biennium, generating an additional $33.8 million in general fund revenue. The largest increase, $15.8 million, results from DMAS billing Medicaid at a higher reimbursement rate for past family planning services. Cost settlements with hospitals that were overpaid in FY 1999 and the first half of FY 2000 are expected to result in additional recoveries of $8.5 million GF.

VCUHSA payment to GF. The proposed budget provides about $25 million GF to Virginia Commonwealth University's Health Sciences Authority in FY 2002 so that it can obtain matching federal funds through Medicaid. By the end of FY 2002, the authority must reimburse the GF $23.6 million of the original appropriation, which is included in the forecast as additional revenue.

Other Revenue Adjustments. Other adjustments are detailed below.

Other Revenue Adjustments
($ in millions)

	Revenue Impact
Increased Medicaid recoveries	$33.8
Payment from VCUHSA	23.6
Treasury fees, proposed investment change & account adjustments	3.1
Community Crime grant settlement	1.5
Sale of Surplus Property	1.3
SCC Notary License fee increase	0.2
Sale of DGS Luray Lab	0.2
MCI telephone revenue (DOC)	(1.3)
Reduction of estimated Tobacco Revenue from Master Settlement Agreement	(8.4)
Reduction of Taxes Due from Lottery lump sum payments	(5.5)
Total	$48.6

Commonwealth's Tobacco Settlement Allocation

A $460.0 million GF increase from the Commonwealth's share of the Tobacco Master Settlement Agreement (MSA) is assumed in the proposed budget. Under current law, the MSA payments are appropriated as follows:

- The Tobacco Indemnification and Community Revitalization (TICR) Fund receives 50 percent of the state's allocation;
- The Virginia Tobacco Settlement Fund (VTSF) receives 10 percent; and
- The general fund receives 40 percent.

Language in the proposed budget authorizes the creation of three separate trust funds into which proceeds from the sale of the future revenue streams will be deposited. The securitization proposal contemplates sale of 20 years of tobacco settlement payments, beginning with FY 2003 payments. The securitized portion of the state's 40 percent share would be deposited to the general fund and subsequently appropriated to a proposed Higher Education and Economic Development Trust Fund. This fund would in turn make debt service payments on $591.7 million in bonds proposed in the budget.

Estimated Proceeds for Securitization of Tobacco Revenues
($ in millions)

	40% to GF	50% to TICR	10% to VTSF
Securitization Proceeds (one-time)	$460.0	$574.0	$114.8

Estimated GF Revenue Forecast

After incorporating into the economic forecast the tax policy revisions, other revenue adjustments, and the proposed sale of MSA payments, GF revenues are projected to grow by 5.7 percent and 7.0 percent respectively, in the first and second year of the biennium.

Forecast of General Fund Revenues
($ in millions)

	FY 01	Percent Growth	FY 02	Percent Growth
Net Ind. Income	$7,258.4	6.3%	$7,793.3	7.4%
Corp. Income	476.5	(15.8)	514.8	8.0
Sales	2,297.5	4.4	2,448.1	6.6
Insurance Prem.	259.5	3.4	273.3	5.3
Public Service	87.4	(16.1)	95.5	9.3
Major Taxes	$10,379.3	4.3%	$11,125.0	7.2%
Other	750.6	(2.5)	778.8	3.5
Total Taxes	$11,129.9	3.8%	$11,903.8	6.9%
Tobacco MSA	$271.4	305.7%	$295.1	8.7%
GF Revenues	**$11,401.3**	**5.7%**	**$12,198.9**	**7.0%**

Available Balances

Proposed balance increases of $144.3 million include $81.4 million from the assumed reversion of both GF and NGF capital outlay appropriations from prior biennia, most of which would be replaced with bond proceeds. Operating appropriation reversions provide another $36.3 million. Balances from year-end close, relief bills, and other adjustments add $10.2 million.

Proposed Adjustments to Balances
($ in millions)

GF & NGF Capital Outlay Reversions	$81.4
Unspent Agency Balances	36.3
Reduction in Y2K Loan Liability	11.9*
Veto of Textile Worker's Health Benefits Program	5.5
Caregiver's Grant Program	(1.0)
Year-end Close, Relief Bills & Other Adjustments	10.2
	$144.3

* offset by $10.0 million transfer reduction

Transfers

Additional transfers to the general fund increase total available revenues by $3.3 million. ABC and Lottery profits are projected to increase, providing an additional $12.7 million. Revenue from out-of-state inmates is increased by $13.9 million, resulting from additional prisoners, productivity savings, and the use of a $6.0 million treasury loan to cover accrued FY 2002 revenue that will be received in FY 2003. Decreases in transfers in the proposed budget include the redirection of $18.0 million in unclaimed Lottery prizes to the Literary Fund to partially fund debt service payments on up to $120.0 million in proposed Virginia Public School Authority bonds.

Proposed Changes to Transfers
($ in millions)

Lottery Proceeds	$7.4
ABC Profits	5.3
Contract Prisoners Special Revenue Fund	13.9
DIT Rate Reduction (NGF agencies)	3.7
Y2K NGF Cost Recovery	3.6
Productivity Savings at VA Correctional Enterprises	1.7
VASAP Balances to Emergency Med. Services	1.0
Sales Tax Compliance	0.7
Unfunded Marine Fuels	0.4
NGF Indirect Cost Recovery	0.4
Embry Dam - Fish Passage Fund	0.1
Unclaimed Lottery Prizes to Literary Fund	(18.0)
Y2K Loan Repayment	(10.0)
GF Transfer to Children's Health Program	(2.3)
Treasury Fees (moved to revenues)	(2.1)
E-Government Services Fund	(1.3)
GF Transfer to Game Protection Fund	(0.5)
Other Transfers and Deposits	(0.7)
Total Proposed Changes to Transfers	**$3.3**