

Revenue

The adopted 2002-04 budget, includes \$24.7 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation (2002-04 biennium, \$ in millions)	
Available Balances	\$ 151.1
Revenue Estimate	23,306.3
Transfers	<u>1,290.6</u>
Total General Fund Resources	\$24,748.0

Available Balances

Of the \$151.1 million in available balances, \$133.2 million is the estimated balance at the end of the 2000-02 biennium. The estimated balance is the difference between the proposed resources available in the 2000-2002 biennium of \$24,667.7 million, as included in Chapter 814, and the proposed spending of \$24,534.5 million. Another \$17.9 million is from anticipated additions to the balance during the 2002-04 biennium, about half of which results from savings that are expected from establishing a Car Tax Audit unit.

Estimated Revenues

The 2002-04 general fund revenue forecast of \$23,306.3 million assumes overall growth rates of 3.4 percent for FY 2003 and 6.5 percent for FY 2004. The forecast anticipates that the current recession will end during the first quarter of FY 2003, and the recovery will be gradual rather than a sharp rebound. Both job growth and wage growth are projected to remain weak until FY 2004.

The forecast also incorporates a number of tax policy changes, such as the continued acceleration of sales and use tax collections from July into June for larger retailers. Other tax policy actions include continued deferral of the withholding tax change, doubling of registration fees for stock corporations, re-estimates and limits on certain tax credits, and deconformity with federal tax law changes. Increases in various fees adopted to help offset general fund reductions also are included and are incorporated in the revenue estimate.

- **Revenue Forecast.** The revenue forecast assumes that the current recession and its impact on general fund revenues will continue into the Fall of 2002. The latest downward revision to the forecast occurred in February 2002 and reflected further weakness in estimated income tax payments and corporate taxes. Two key economic factors -- wages and employment -- are expected to remain relatively weak in FY 2003, with job growth projected at 0.9 percent, and wage growth remaining benign at 3.9 percent. The forecast assumes that economic activity will be stronger in FY 2004, with job growth of 3.7 percent and wage growth of 7.8 percent.

The revenue forecast also assumes about \$94.1 million in Medicaid recoveries, a doubling of current collections, from the unbundling of certain services to create higher reimbursements and through increased use of upper limit payment caps.

Forecast of General Fund Tax Revenues (2002-04 biennium, \$ in millions)					
	FY 02	FY 03	% growth	FY 04	% growth
Net Ind. Income	\$6,964.9	\$7,341.7	5.4%	\$7,792.9	6.1
Corporate	295.6	298.9	1.1	342.4	14.6
Sales	2,412.8	2,373.0	(1.6)	2,532.9	6.7
Insurance Premiums	288.0	298.0	3.5	319.9	7.3
Public Service	<u>95.5</u>	<u>98.5</u>	<u>3.1</u>	<u>101.8</u>	<u>3.4</u>
Major Taxes	\$10,056.8	\$10,410.1	3.5%	\$11,089.9	6.5%
Other	<u>799.9</u>	<u>818.5</u>	2.3%	<u>876.7</u>	(7.1)
Total Taxes	\$10,856.7	\$11,228.6	3.4%	\$11,966.6	6.6%
Tobacco Settlement	59.3	59.1	(0.3)	52.0	(12.0)
Total GF Revenue	\$10,916.0	\$11,287.7	3.4%	\$12,018.6	6.5%

- **Fee Modifications.** The Approved budget for the 2002-2004 biennium includes several changes to fees. These include:
 - **Increase Stock Corporations Registration Fees.** Language is included which doubles the registration fees paid by stock corporations registered in Virginia, generating \$31.0 million in revenues.

- **Notary Public License Fee.** Language increases the fee for issuance and renewal of a license for a notary public from \$25 to \$35, generating \$0.8 million for the biennium.
- **Deed Processing Fee.** A fee of \$10.00 is established for the recording of a deed transferring title to property by a clerk of the circuit court. The fee is expected to generate \$41.0 million over the biennium.
- **Motor Vehicle Fees.** Three fees related to motor vehicles are increased and included in the revenue forecast. Chapter 794, enacted by the 2002 General Assembly, raised the motor vehicle registration fee by \$2.00 to provide an additional \$15.0 million each year for emergency services and public safety activities. This fee increase is also included in the budget. Two other fees, motor vehicle records and driver licenses, also are increased. A \$2.00 increase in the motor vehicle records fee will generate \$20 million for the biennium, and is included in transfers. The revenue generated by a \$3.00 increase in the five-year driver’s license fees, which had not increased since the mid-1980’s, remains at the Department of Motor Vehicles as NGF revenue.
- **Court Processing Fees.** For civil cases, the court processing fee is increased by \$4.00. For traffic violations and misdemeanors, fees are increased by \$12.00. Additional general fund revenue expected from these increases totals \$25.2 million in FY 2003 and \$25.5 million in FY 2004.
- **Legal Aid Fee.** Chapter 318, enacted by the 2002 General Assembly, also increased the fee for legal aid services from \$2.00 to \$4.00. Revenue generated of \$1.8 million for the biennium will be used to fund legal aid and the district courts.
- **Speeding Fine Increase.** The speeding fine is increased from \$3.00 per mile over the limit to \$4.00 per mile over the limit, generating \$4.7 million a year for public education.
- **Other Fees.** Other modified fees include those for vital records, well and septic, restaurants, food establishment inspections, motorboat registration, DNA blood samples, and waste and water permits.
- **Tax Policy Actions.** The budget includes several tax policy changes:

- ***Accelerate Sales and Use Tax Collections from July to June.*** Businesses with retail sales exceeding \$1.3 million will be required to make an estimated sales and use tax payment in June -- for June sales -- in addition to the normal sales and use tax remittance for May sales. The payment will equal 90 percent of the prior June's tax liability for affected retailers, and is estimated to total \$137.8 million. Currently, retailers have 20 days from the end of the month to remit sales and use tax payments. For example, sales and use taxes collected in June would normally be remitted by July 20.

Of the \$137.8 million, \$19.4 million is the delayed transfer of the Transportation Trust Fund's share of the sales and use tax payment until July. Language outlining the change in sales and use tax payment is in Part 3 of the approved budget.

- ***Extend Prohibition on Withholding Tax Changes.*** In 1989, the *Code of Virginia* was amended to allow an individual to modify his income tax withholding at any time during the year. This allowance has never taken effect, and language included in Part 3 repeals this *Code* provision. As a result, \$31.8 million in revenue is added to FY 2004.

- ***Deconformity with Federal Internal Revenue Service Code.*** Language is included in Part 3 which requires Virginia tax laws to conform to United States income tax laws as they existed on December 31, 2001 (deconform to federal tax actions after that date). The language also provides that the 2003 General Assembly shall review and consider modifying state tax laws to conform with any changes made to federal tax laws during calendar year 2002.

Since the beginning of 2002, two significant pieces of federal legislation have been enacted which, without this deconformity language, would further reduce revenues by an estimated \$300 million by June 30, 2004. The two federal acts are the Job Creation and Worker Assistance Act of 2002 and Victims of Terrorism Relief Act of 2001.

- ***Modifications to Existing Tax Policy.*** The adopted budget also incorporates several changes to existing tax policy that result in additional revenues. These include the following:
 - Limits on the qualified equity and subordinated debt investment tax credit of \$4 million for taxable year 2002 and

\$3 million for taxable year 2003. The limit had been \$5 million.

- Limits the retaliatory cost tax credit for insurance company payments made to other states to 80 percent and 60 percent respectively for fiscal years 2003 and 2004, rather than the current 100 percent. The limit only affects companies first qualifying for the credit as of January 1, 2001.
- Modifies the internet service providers' sales and use tax exemption by implementing a refund process beginning with FY 2004.

The impact of these various tax policy changes is embedded in the revenue forecast, along with other previously approved tax policy changes. The impact of tax policy changes enacted since 1999 reduce general fund revenues by \$174.4 million in FY 2003 and by \$173.5 million in FY 2004. A listing of these tax policy changes follows.

Tax Policy Actions Affecting GF Revenue Estimates
(\$ in millions)

	<u>FY 2003</u>	<u>FY 2004</u>
Tax Policy Enacted Since 1999		
Natural Gas Deregulation	3.6	3.6
2001 Federal Tax Relief Act	(32.1)	(51.3)
Sales Tax on Food (0.5 percent only)	(48.1)	(49.4)
Double-Weight Sales Factor	(24.9)	(25.1)
Credit for Low-Income Families	(17.5)	(19.6)
Electricity Deregulation	(20.0)	-
Subtraction for Military Wages	(5.3)	(5.3)
Subtraction for Unemployment Benefits	(5.2)	(5.2)
Credit for Equity and Subordinated Debt	(4.0)	(3.0)
Deduction for Tuition Savings Plan	(3.3)	(3.1)
Neighborhood Assistance Credit	(3.0)	(3.0)
Exempt Internet Access Providers	(2.6)	-
Exempt New Non-Profit Organizations (2001)	(2.6)	(2.6)
Equalization of Interest Charges/Payments	(2.5)	(2.5)
Exemption for For-Profit Hospitals	(1.8)	(1.9)
Exemption for Optical Supplies	(1.6)	(1.6)
Subtraction for Federal/State Employees	(1.1)	(1.1)
Credit for Taxes Paid to Another State	(1.0)	(1.0)
Subtraction for Permanent Disabilities	(0.7)	(0.7)
Exemption for Modular Housing	(0.4)	(0.4)
Credit for Employing Disabled Persons	(0.2)	(0.2)
Credit for Rent Reduction	<u>(0.1)</u>	<u>(0.1)</u>
Total Previously Enacted	(<u>\$174.4</u>)	(<u>\$173.5</u>)

Transfers

Transfers to the general fund increase total available resources by \$1.3 billion. Of this amount, \$658.0 million is estimated Lottery profits for the 2002-04 biennium. Other large transfers adopted by the General Assembly in House Bill 30 include:

- **Redirection of the One-Half Cent State Sales and Use Tax.** In 1986, the General Assembly increased the state sales and use tax by one-half cent and dedicated it to the Transportation Trust Fund. The Highway Construction Fund receives 78.7 percent of this amount. The adopted budget transfers the FY 2003 Construction Fund revenue stream, \$317.0 million, to the general fund. The \$317.0 million is replaced with debt authority of an equal amount.
- **NGF Budget Reductions.** NGF agencies are required to reduce certain components of their budgets by 7 percent in FY 2003 and 8 percent in FY 2004. In total, this provides \$29.0 million in savings for the biennium which are transferred to the general fund to help offset the general fund shortfall.
- **Virginia Retirement System Adjustments.** A total of \$106.3 million in VRS savings in NGF agencies are transferred to the general fund. Of that amount, \$52.0 million results from rate adjustments or suspended payments for retirement, group life, and health care related benefits. The remaining \$54.3 million is derived from a reduction in VRS contribution rates related to a write-off of unclaimed, dormant accounts.
- **Fund Balances.** Balances from NGF sources totaling \$48.9 million will be transferred to the general fund during the 2002-04 biennium. These include \$15.5 million in the first year from the Virginia Tobacco Settlement Foundation, which receives 10 percent of the annual Virginia payment from the Master Settlement Agreement. The \$15.5 million represents previous unspent balances in the fund. Also included is \$13.7 million from the Uninsured Motorists Fund, \$7.0 million from the Intensified Drug Enforcement Jurisdictions Fund (IDEA), \$4.0 million from the Central Car Pool Internal Service Fund, \$2.2 million from the Technology Partnership Fund, \$2.0 million from the Court Debt Collection Fund, and \$2.0 million from the Small Business Environmental Compliance Assistance Fund.

The following table details the transfers contained in HB 30.

Transfers in the Adopted Budget, 2002-2004 Biennium (\$ in millions)	
Lottery profits	\$658.0
Redirect 1/2 cent Sales & Use Tax from Road Construction	317.0
ABC to Dept. of Mental Health, Mental Retardation & SAS	52.2
VRS Rate Adjustments – retirement, group life, health care	52.0
NGF Fund Balance Transfers	47.5
VRS Unclaimed Property Adjustment-NGF share	54.3
NGF 7 & 8 Percent Budget Reductions & At-Will Positions	62.6
ABC Profits	26.2
Motor Vehicle Records Fee Increase	20.0
NGF Share of Sales Tax Compliance Audits	15.7
NGF Indirect Cost Recoveries	15.9
Unrefunded Marine Fuels Tax	14.8
Treasury Fees	0.3
UVA Medical Center Interest Income	5.0
DIT Telecommunications Contract Savings	3.5
Support Cost Payments, including Payroll Processing	1.2
ABC to Winegrower’s Advisory Board	1.0
VPSA Admin & Insurance Recovery	0.8
Game Protection Fund Transfers	(28.9)
Children’s Health Program	(25.2)
E-Procurement Initiative	<u>(2.6)</u>
IHRIS Loan Repayment	<u>(0.7)</u>
Total	\$1,290.6