

# Revenue

Chapter 814, HB 29 as adopted, includes a net reduction of \$323.0 million in FY 2002 general fund resources available for appropriation. Projected revenue collections for FY 2002 have been reduced by \$1.2 billion since the budget for 2000-02 was enacted in the Spring of 2000, reflecting a national recession that began in March 2001. The revenue decline is partially offset by additional transfers to the general fund and a \$467.0 million withdrawal from the Revenue Stabilization (Rainy Day) Fund.

<b>General Fund Resources Available for Appropriation</b> (FY 2002, \$ millions)			
	<u>Chapter 1073</u>	<u>HB 29 Total</u>	<u>Difference</u>
Additions to the Balance	(\$1.5)	\$101.3	\$102.8
Official Revenue Estimate	12,146.6	10,916.0	(1,230.6)
Transfers	355.2	691.6	336.4
Revenue Stabilization Fund	<u>0.0</u>	<u>467.0</u>	<u>467.0</u>
GF Resources Available for Appropriation	\$12,500.3	\$12,175.9	(\$324.4)

## **Changes in the Balance**

The adopted budget contains net balances of \$101.3 million, resulting primarily from the use of bonds for \$87.2 million of frozen capital outlay projects that were released last fall, \$9.5 million from Compensation Board balances, \$1.2 million in mental health and mental retardation program balances, and \$0.2 million in tuition assistance grant balances.

Other balance changes related to the release of June 30, 2001, year-end reserves for (1) the FY 2002 Rainy Day Fund deposit (calculated from FY 2000 fiscal performance), (2) the July 2001 payroll that covered work accomplished in June, and (3) lottery proceeds in excess of the estimate. From these “freed up” reserves, agencies are authorized to retain \$170.7 million in FY 2001 operating

balances, and increases are provided for certain sum sufficient accounts; such as disaster relief payments and line of duty benefit payments for the Virginia National Guard Unit members killed in the Georgia airplane crash.

The sum total of these balance adjustments offset a negative \$1.5 million balance adjustment assumed in the budget as originally adopted, and result in a remaining assumed available balance of \$101.3 million, as shown below:

<b>Assumed Balances</b> (FY 2002, \$ in millions)	
Unreserved Year-End Balance	\$ 201.0
Release of Reserve for FY 2002 Rainy Day Fund Payment	187.1
Release of Reserve for July 2001 Payroll	71.1
Release of Lottery Proceeds Reserve	19.3
Reappropriation of Old Capital Projects	(213.1)
Reappropriation of Some Operating Balances to Agencies	(170.7)
Restoration of Frozen Capital Projects	(99.5)
Capital Outlay Reversions	11.6
Supplant Capital Outlay Restorations with Debt	87.2
Unallot Compensation Board Balances	9.5
Y2K Deficit Loan Liability (offsetting entry in transfers)	5.0
Unallot Mental Health & Mental Retardation Balances	1.2
Unallot Tuition Assistance Grant Balances	0.2
Natural Disaster and Forest Fire Reserves & Appropriations	(7.8)
Line of Duty Benefits for National Guard Unit Members	(1.4)
Technical Adjustments	<u>0.6</u>
<b>Total Assumed Balances</b>	<b>\$ 101.3</b>

### **Estimated Revenues**

The general fund revenue forecast of \$10.9 billion is based on an economic scenario that reflects the recession and economic downturn in Virginia, offset by several tax policy changes. Tax policy changes include the acceleration of sales

tax payments by retail merchants and modifications to certain general fund revenue deposits and fees.

Overall, FY 2002 general fund revenues are projected to decline 1.7 percent when compared to FY 2001 actuals, resulting in revenues that are \$1.2 billion below the level assumed in Chapter 1073.

<b>Estimate of FY 2002 General Fund Taxes by Source</b> (\$ in millions)				
	<b><u>FY 2001 Actuals</u></b>	<b><u>Estimated % Growth</u></b>	<b><u>FY 2002 Forecast</u></b>	<b><u>Change from Chap. 1073</u></b>
Net Individual	\$7,226.3	(3.6%)	6,964.9	(\$1,029.9)
Corporate	363.8	(18.7)	295.6	(178.0)
Sales & Use	2,273.0	6.2	2,412.8	(52.0)
Insurance Premiums	268.1	7.4	288.0	14.4
Public Service	93.4	2.2	95.5	16.3
All Other	<u>829.5</u>	<u>(3.6)</u>	<u>799.9</u>	<u>2.6</u>
<b>Total Tax Revenue</b>	<b>\$11,054.1</b>	<b>(1.8%)</b>	<b>\$10,856.7</b>	<b>(\$1,226.6)</b>
Tob. Settlement	<u>51.3</u>	<u>15.6</u>	<u>59.3</u>	<u>(4.0)</u>
<b>Total GF Revenues</b>	<b>\$11,105.4</b>	<b>(1.7%)</b>	<b>\$10,916.0</b>	<b>(1,230.6)</b>

- **Economic Forecast.** The February 2002 mid-session forecast assumes that the national economic recession that began in the Spring of 2001 will continue into the Fall of 2002. FY 2002 actual general fund tax collections through March, the end of the third quarter of the fiscal year, support this scenario.

Underlying this forecast is the assumption that both employment and wage growth will be at levels similar to those experienced in the 1990-91 recession, with employment growth expected to be 0.5 percent and wage

growth 4.2 percent. Estimated income tax receipts, which reflect both small businesses' employment and certain non-wage income, have declined significantly. Corporate revenue collections have seen negative growth for six quarters, far exceeding the trend in the early 1990's.

<b>Actual Percentage Growth FY 2002 GF Revenue Collections Compared to FY 2001</b>		
	<u>Thru March</u>	<u>Required by Estimate</u>
<b>Ind. Income</b>		
Withholding	2.7%	3.5%
Est./Tax Due	(10.7)	(14.0)
Refunds	<u>38.8</u>	<u>27.4</u>
<b>Net Ind. Income</b>	<b>(3.1)%</b>	<b>(3.6)%</b>
<b>Sales</b>	<b>(0.3)</b>	<b>6.2</b>
<b>Corporate</b>	<b>(24.0)</b>	<b>(18.7)</b>
<b>Total GF Taxes</b>	<b>(2.5)%</b>	<b>(1.8)%</b>

- **Modified and Accelerated General Fund Tax Payments.** The sluggish revenue forecast is somewhat offset by modifications to general fund tax payments, including the acceleration of certain sales tax collections from July to June and clarification of general fund deposits based on electronic fund transfers (EFT).

- ***Accelerate Sales and Use Tax Collections from July to June.*** Requires businesses with retail sales exceeding \$1.3 million 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 businesses' June 2001 tax liability. 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.

As a result, \$137.8 million in accelerated sales tax collections will occur in FY 2002, with the proposed change in remittance pattern continuing until fiscal year 2006. Adopted language states that it is the intent of the General Assembly to begin phasing out the acceleration in 2006, with total elimination no later than 2012. 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 Chapter 814.

- ***EFT Deposit Clarification.*** Recognizes electronic fund transfer deposits with a settlement or notification date of July 1 to be included as June 30 revenue, in keeping with their actual deposit date. This clarification reflects timely processing of transactions afforded by technology, resulting in \$18 million of additional revenue being recorded on the date actually deposited.
- **Modifications to Other Revenues and Fees.** Includes adjustments to various fees including those for recording deeds, motor vehicles, and court processing of cases. In addition, language is included in Part 3 which temporarily delays the transfer of interest payments and provides for deconformity with federal income tax law changes made in 2002.
  - ***Fee for Recording Deeds.*** Assesses a \$10.00 fee on every deed that is recorded, beginning May 1, 2002, in addition to the recordation tax. The deed recording fee is projected to generate \$3.4 million during May and June.
  - ***Motor Vehicle Fees.*** Increases the motor vehicle records fee and the motor vehicle registration fee by \$2.00 each. Chapter 794 of the 2002 General Assembly Session raised the registration fee to provide an additional \$2.5 million in funding for emergency services and public safety activities, particularly those related to homeland security. (The motor vehicle record fee increase is included in transfers.)
  - ***Court Processing Fees.*** Increases court processing fees, beginning May 1, 2002, and applies part of the proceeds to eliminate proposed funding reductions in the court system. For civil cases, the fee is increased \$4.00; for traffic cases and misdemeanors, the fees are increased by \$12.00. The court processing fees are expected to generate an additional \$4.2 million during May and June.
  - ***Interest Payments.*** Allows the estimated fourth quarter interest earned on nongeneral fund cash balances to be transferred to the various NGF accounts in July rather than June to improve year-end cash flow by \$34.2 million in FY 2002.
  - ***Deconformity with Federal Internal Revenue Service Code.*** Includes language requiring Virginia tax laws to conform to United States income tax laws as they existed on December 31, 2001. 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 calendar year 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.

### **Estimated Transfers**

Chapter 814 of the 2002 Session includes \$691.6 million in transfers to the general fund for FY 2002. This represents an increase of \$336.4 million from Chapter 1073, the original 2000-02 budget. Major transfers include: (1) \$259.0 million from collection of enhanced Medicaid payments for locally-owned nursing homes; (2) \$25.2 million from transferring a variety of nongeneral fund balances; (3) \$18.7 million from a projected increase in lottery profits, (4) \$17.8 million from dormant account write-offs at the Virginia Retirement System (VRS), and (5) \$10.5 million from NGF savings related to rate adjustments for VRS contributions and suspension of group life payments. Total FY 2002 transfers are shown on the attached table:

**Chapter 814 Transfers**  
(FY 2002, \$ in millions)

Lottery Proceeds	\$329.0
Enhanced Medicaid Payment - Locally Owned Nursing Homes	259.0
NGF Balances	28.5
VRS Unclaimed Dormant Accounts	17.8
VRS Rate Adjustments (retirement and group life)	10.5
ABC Profits	24.9
ABC Fund to MHMRSAS & Winegrower's Advisory Board	14.9
Unclaimed Lottery Prizes	9.0
NGF Share of Sales Tax Compliance Audits	7.8
NGF Indirect Cost Recoveries	7.2
Unrefunded Marine Fuels Tax	6.4
Contract Prison Revenue	5.9
3 Percent NGF Agency Administrative Program Reduction	3.5
Virginia Correctional Enterprise	1.0
Game Protection Fund Transfers	(17.3)
FAMIS	(12.0)
IHRIS and Y2K Deficit Loan Repayment	(5.3)
Miscellaneous	<u>0.8</u>
<b>Total Transfers</b>	<b>\$691.6</b>

- Enhanced Medicaid Payments to Locally-Owned Nursing Homes.** In December 2001, the Commonwealth took final action to initiate an intergovernmental transfer between the federal government, certain local governments and the Commonwealth for \$259.0 million in federal Medicaid reimbursement.

Federal Medicaid laws, which have now been modified, allowed locally-owned nursing homes to be reimbursed at the Medicare upper payment limits instead of the actual Medicaid reimbursement rate for nursing

homes. Virginia was able to apply this rate retroactively to receive \$259.0 million in additional federal reimbursement. Of this amount, \$8.9 million will go to participating localities.

- **Nongeneral Fund Balances.** Captures \$25.2 million in nongeneral fund balances, to include \$4.0 million from the Virginia Alcohol Safety Action Program, \$4.5 million from the Governor's Development Opportunity Fund, \$5.0 million from Uninsured Motorist Fees, \$5.0 million from the Intensified Drug Enforcement Jurisdictions Fund (IDEA), and \$3.5 million in mental health and mental retardation balances.
- **VRS Adjustments.** Includes \$28.3 million in transferred nongeneral fund savings from VRS contribution rate changes. Of the \$28.3 million, \$17.8 million results from a credit against VRS retirement contributions for the remainder of the fiscal year for the value of unclaimed, dormant retirement accounts. Also included is \$9.7 million in additional savings from the update of VRS actuarial rates using the assets and liabilities of the system as of June 30, 2000, and applying the lower rates in July 2001. Another \$0.8 million is included from the suspension of group life premiums.

### **Revenue Stabilization Fund Withdrawal**

Chapter 814 includes a withdrawal of \$457.0 million from the Revenue Stabilization Fund. This amount is the Governor's estimate of one-half of the Rainy Day Fund balance at the end of FY 2002. Virginia's *Constitution* provides that the General Assembly can use up to one-half of the Fund's balance to fill part of a revenue shortfall.