

Revenue

Proposed net amendments in HB/SB 29 reduce the general fund resources available for appropriation in FY 2002 by \$158.3 million. General fund revenues available for appropriation total an estimated \$11.2 billion, with transfers adding another \$633.1 million, adjustments to the balance providing \$52.8 million, and \$467.0 million coming from a Revenue Stabilization (Rainy Day) Fund withdrawal.

General Fund Revenue Available for Appropriation	
(FY 2002, \$ in millions)	
Available Balances	\$ 52.8
Revenue Estimate*	11,189.1
Transfers*	633.1
Rainy Day Fund Withdrawal	467.0
Total General Fund Resources	\$ 12,342.1
<i>*Assumes passage of certain tax policies</i>	

Available Balances

Proposed HB/SB 29 contains net balances of \$52.8 million. The balances result primarily from the release of June 30, 2001, year-end reserves and the assumption that a portion of frozen capital projects that have been released will now be bonded. Balances reserved at year-end included the required FY 2002 Rainy Day Fund deposit (calculated from FY 2000 fiscal performance), lottery proceeds in excess of the estimate, and the July 2001 payroll that covered work accomplished in June.

From the unreserved balances, 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.

Available Balances (FY 2002, \$ in millions)	
Unreserved Year-End Balance	\$ 201.0
Reappropriation of Old Capital Projects	(213.1)
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
Other Capital Outlay Reversions	7.5
Y2K Deficit Loan Liability (offsetting entry in transfers)	5.0
Reappropriation of Some Operating Balances to Agencies	(170.7)
Restoration of Frozen Capital Projects	(99.5)
Supplant Capital Outlay Restorations with Debt	53.7
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>
Total Available Balances	\$ 52.8

Estimated Revenues

The general fund revenue forecast of \$11.2 billion is based on an economic scenario that reflects the recession and economic downturn in Virginia and on proposed tax policy changes – the acceleration of sales tax payments by retail merchants and the acceleration of withholding tax payments by employers.

Overall, FY 2002 general fund revenues are projected to grow by 0.8 percent, resulting in revenues that are \$957.5 million below the level assumed in last year's revenue forecast.

- **Economic Forecast.** After consulting with business leaders, the Governor announced on December 3rd that general fund revenues for FY 2002 would be approximately \$1.0 billion or 1.5 percent below FY 2001 actual collections. This decline was in addition to the \$231.8 million downward adjustment in FY 2002 revenues that was included in last December's reforecast and addressed through Executive Order 74. The forecast

assumes that the national recession that began in March 2001 will continue into the late summer of 2002.

Both employment and wage growth are assumed to be at levels similar to those in the 1990-91 recession, with employment growth expected to be 0.5 percent and wage growth 4.2 percent.

- **Assumed Accelerated Tax Payments.** The revenue forecast for FY 2002 includes the proposed acceleration of both sales and withholding tax collections from July to June, estimated to add \$248.0 million in GF revenues.
 - ***Accelerate Sales and Use Tax Collections from July to June.*** Under this proposed change, retailers 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. 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 of the proposed change, \$170.0 million in accelerated sales tax collections would occur in FY 2002, with the proposed collection change continuing in perpetuity to avoid a cash flow loss in subsequent fiscal years.
 - ***Accelerate Withholding Tax Collections from July to June.*** Currently, companies with monthly withholding liability of more than \$1,000 must make withholding tax payments twice a week -- typically on Tuesday and Friday. Under the Governor's proposal, some businesses will be required to make an estimated withholding tax payment on expected employee earnings. The first withholding payment due in July (FY 2003) would be made by the end of June (FY 2002). This accelerated payment would result in an additional \$78.0 million in revenues in FY 2002 and also is assumed to continue in perpetuity to avoid a cash flow loss in subsequent fiscal years.

Estimated Transfers

HB/SB 29 includes \$633.1 million in transfers to the general fund for FY 2002. This represents an increase of \$277.9 million from Chapter 1073.

Of the increase, \$259.0 million relates to the collection of enhanced Medicaid payments for locally-owned nursing homes, \$12.7 million results from a projected increase in lottery profits, \$2.9 million results from the increased

transfer of ABC funds to support activities at the Department of Mental Health, Mental Retardation and Substance Abuse Services, and \$4.9 million is transferred from nongeneral fund agencies to reflect a 2 percent reduction in administrative activities.

Estimate of General Fund Taxes by Source (\$ in millions)					
	<u>Economic Forecast</u>	<u>Economic % Growth</u>	<u>Proposed Acceleration</u>	<u>Estimated % Growth</u>	<u>Change from Chap. 1073</u>
Net Individual	\$7,137.3	(1.2%)	78.0	(0.2%)	(\$779.5)
Corporate	357.5	(1.7)	0.0	(1.7)	(116.1)
Sales & Use	2,275.0	0.1	170.0	7.6	(19.8)
Insurance Premiums	288.0	7.4	0.0	7.4	14.4
Public Service	95.5	2.2	0.0	2.2	16.3
All Other	<u>728.5</u>	<u>(3.4)</u>	<u>0.0</u>	<u>(3.4)</u>	<u>(25.7)</u>
Total Tax Revenue	\$10,881.8	(1.6%)	\$11,129.8	0.7 %	(\$953.5)
Tob. Settlement	<u>59.3</u>	23.4	<u>0.0</u>	23.4	(4.0)
Total GF Revenues	\$10,935.5	(1.5%)	\$11,189.1	0.8%	(\$957.5)

- 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 revised to eliminate this provision, 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, \$8.9 million of which will be paid to participating localities.

HB/SB 29 Transfers (FY 2002, \$ in millions)	
Lottery Proceeds	\$323.0
Enhanced Medicaid Payment - Locally Owned Nursing Homes	259.0
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
2 Percent NGF Agency Administrative Program Reduction	4.9
NGF Balances	3.3
Virginia Correctional Enterprise	1.0
Game Protection Fund Transfers	(17.3)
FAMIS	(12.0)
IHRIS and Y2K Deficit Loan Repayment	(5.3)
Miscellaneous	<u>0.3</u>
Total Transfers	\$633.1

Revenue Stabilization Fund Withdrawal

HB/SB 29 includes a payment from the Revenue Stabilization Fund of \$467.0 million as a general fund revenue resource. This amount is the Governor's estimate of one-half of the 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.