

# Revenue

The Governor's proposed 2002-04 budget includes \$25.0 billion in general fund resources available for appropriation.

<b>General Fund Resources Available for Appropriation</b> (2002-04 biennium, \$ in millions)	
Available Balances	\$ 73.3
Revenue Estimate*	23,478.8
Transfers*	<u>1,427.6</u>
<b>Total General Fund Resources</b>	<b>\$24,979.7</b>
*Assumes passage of certain tax policies	

## **Available Balances**

HB/SB 30 includes \$73.3 million as a projected unspent balance at the end of the 2000-02 biennium. The estimated balance is the difference between the proposed resources available of \$12,342.0 million and the proposed spending of \$12,268.0 million in FY 2002.

## **Estimated Revenues**

The 2002-04 general fund revenue forecast of \$23,478.8 million assumes overall growth rates of 2.2 percent for FY 2003 and 5.4 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 and wage growth are projected to remain weak until FY 2004.

The forecast also incorporates a number of tax policy changes, such as the proposed acceleration of \$248.0 million in sales and use tax and withholding tax revenues from July into June. Other proposed tax policy changes include the doubling of registration fees for stock corporations.

- **Revenue Forecast.** The revenue forecast assumes that the current recession continues into the late summer of 2002. As a result, 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 significantly stronger in FY 2004, with job growth of 3.7 percent and wage growth of 7.8 percent.

Tax policy changes affecting the forecast include several new proposals and a number of recently enacted tax policy changes at both the state and federal level.

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.

<b>Forecast of General Fund Tax Revenues</b> (2002-04 biennium, \$ in millions)					
	<b><u>FY 02</u></b>	<b><u>FY 03</u></b>	<b><u>% growth</u></b>	<b><u>FY 04</u></b>	<b><u>% growth</u></b>
Net Ind. Income	\$7,215.3	\$7,480.1	3.7%	\$7,873.9	5.3
Corporate	357.5	361.6	1.1	397.5	9.9
Sales	2,445.0	2,372.7	(3.0)	2,526.4	6.5
Insurance Premiums	288.0	298.0	3.5	319.9	7.3
Public Service	95.5	98.5	3.1	101.8	3.4
<b>Major Taxes</b>	<b>\$10,401.3</b>	<b>\$10,610.9</b>	<b>2.0</b>	<b>\$11,219.5</b>	<b>5.7%</b>
Other	728.5	759.9	4.3	777.5	2.3
<b>Total Taxes</b>	<b>\$11,129.8</b>	<b>\$11,370.8</b>	<b>2.2%</b>	<b>\$11,997.0</b>	<b>5.5</b>
Tobacco Settlement	59.3	59.1	(0.3)	52.0	(12.0)
<b>Total GF Revenue</b>	<b>\$11,189.1</b>	<b>\$11,429.9</b>	<b>2.2%</b>	<b>\$12,049.0</b>	<b>5.4%</b>

- **Tax Policy Actions.** The Governor's proposed 2002-04 budget includes five new tax policy changes:
  - ***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 are given 20 days from the end of the month to remit sales and use tax payments. For example, sales and use taxes collected in June normally would be remitted by July 20. The acceleration is proposed for FY 2002 to produce a one-time \$170 million revenue gain. The policy is continued in the 2002-04 biennium to avoid a comparable cash-flow reduction in revenues.

- ***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 would be made by the end of June. The acceleration is proposed for FY 2002 to produce a one-time \$78 million revenue gain. The policy is continued in the 2002-04 biennium to avoid a comparable cash-flow reduction in revenues.
- ***Increase Stock Corporations Registration Fees.*** The Governor’s proposed budget assumes \$31.0 million in revenues from the doubling of registration fees paid by stock corporations registered in Virginia. Separate legislation will be introduced.
- ***Banking Fees.*** HB/SB 30 also assumes \$1.2 million in general fund revenue from proposed legislation that would allow the Treasurer to pay banking fees rather than maintaining minimum balances in some banking accounts.
- ***Corporate Note Investment.*** The Governor will propose legislation which would allow the Treasurer to invest in corporate notes, generating an estimated \$1.0 million in revenue.
- ***Existing Tax Policy.*** Both federal and state tax policy changes enacted in the last several years have an impact on general fund revenues. These impacts are embedded in the revenue forecast. The impact of tax policy changes enacted since 1999 reduce GF revenues by \$189.0 million in FY 2003 and by \$223.5 million in FY 2004. A listing of these tax policy changes follows.

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

	<b><u>FY 2003</u></b>	<b><u>FY 2004</u></b>
<b>Tax Policy Enacted Since 1999</b>		
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)
Income Tax Withholding	-	(31.8)
Double-Weight Sales Factor	(24.9)	(25.1)
Credit for Low-Income Families	(23.7)	(25.8)
Electricity Deregulation	(20.0)	-
Subtraction for Military Wages	(9.7)	(9.7)
Subtraction for Unemployment Benefits	(8.2)	(8.2)
Credit for Equity and Subordinated Debt	(5.0)	(5.0)
Deduction for Tuition Savings Plan	(3.3)	(3.1)
Neighborhood Assistance Credit	(3.0)	(3.0)
Exempt Internet Access Providers	(2.6)	(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>
<b>Total Previously Enacted</b>	<b>(<u>\$189.0</u>)</b>	<b>(<u>\$223.5</u>)</b>

## **Transfers**

Proposed transfers to the general fund increase total available resources by \$1.4 billion. Of this amount, \$652.6 million results from the proposed redirection of the one-half cent state sales and use tax from the Transportation Trust Fund, for highway construction, to the general fund.

Other transfers include \$620.0 million is estimated Lottery profits for the 2002-04 biennium. Alcoholic Beverage Control profits proposed for distribution to localities over the biennium total \$48.3 million, a reduction of \$27.4 million over prior distributions. This reduction results from an increase in the amount of ABC revenues that are transferred to the Department of Mental Health Mental Retardation and Substance Abuse Services.

Other proposed transfers include: savings generated from 6 percent budget reductions in each year of the biennium applied to nongeneral fund agencies, monies resulting from a proposed adjustment in Virginia Retirement System contribution rates related to unclaimed property, and fund balances from the Virginia Tobacco Settlement Foundation (10 percent portion).

- **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 Governor's proposed 2002-04 budget transfers the Construction Fund revenue stream, \$317.0 million in FY 2003 and \$335.6 million in FY 2004, to the general fund. The \$652.6 million is replaced with proposed tax-supported debt authority of an equal amount. The one-half cent sales and use tax dedicated to ports, aviation, and mass transit are not included in the proposal.
- **Lottery.** As introduced, the budget assumes \$320.0 million in Lottery profits will be transferred each year to the general fund. Unlike previous years, unclaimed Lottery prizes, estimated at \$9.0 million each year, will remain in the Literary Fund to help finance an interest rate subsidy program for school construction.
- **Alcoholic Beverage Control Profits.** HB/SB 30 reduces ABC profits distributed to localities by \$27.4 million over the biennium. Of the \$27.4 million, \$23.2 million is earmarked for reimbursement of care provided by the Department of Mental Health, Mental Retardation, and Substance Abuse Services as reimbursement for related services.

- **NGF Budget Reductions.** The Governor's proposed 2002-04 budget requires nongeneral fund agencies to reduce certain components of their budgets by 6 percent in each year of the biennium. In total, this provides \$14.8 million each year to the general fund through revenue transfers. The Department of Transportation, the Department of Motor Vehicles, and the Department of Game and Inland Fisheries are proposed to absorb the largest reductions, totaling \$10.0 million in each year.
- **Virginia Retirement System Unclaimed Property Adjustment.** The proposed budget assumes a reduction in VRS contribution rates related to a proposed write-off of unclaimed property liabilities. As part of this proposal, a \$25.1 million transfer is anticipated, as the NGF savings from the proposed write-off.
- **Virginia Tobacco Settlement Foundation Fund Balances.** HB/SB 30 includes a budget transfer of \$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.
- **Other Transfers.** Other transfers are detailed in the next table. While these transfers typically occur each year, the amounts generated from the transfers may be used in ways that differ from existing statute. For example, the Governor is proposing to redirect approximately \$7.1 million each year from the Game Protection Fund to cover general fund activities in the Marine Resources Commission and Department of Conservation and Recreation. In addition, \$1.6 million each year is proposed to be transferred from the Game Protection Fund into the general fund.

**Proposed Transfers in HB/SB 30, As Introduced**  
(\$ in millions)

Redirect 1/2 cent Sales & Use Tax from Road Construction	\$652.6
Lottery profits	640.0
ABC to Dept. of Mental Health, Mental Retardation & SAS	46.4
ABC Profits	26.2
NGF 6 Percent Budget Reductions	29.6
VRS Unclaimed Property Adjustment-NGF share	25.1
Virginia Tobacco Settlement Foundation Balance	15.5
NGF Share of Sales Tax Compliance Audits	15.7
NGF Indirect Cost Recoveries	15.7
Unrefunded Marine Fuels Tax	12.8
NGF Balances	3.4
Court Debt Collection Fund	2.0
Support Cost Payments, including Payroll Processing	1.2
ABC to Winegrower's Advisory Board	1.0
Treasury Fees	0.3
NGF Share of Tobacco Settlement Audit & Enforcement Unit	0.3
VPSA Admin & Insurance Recovery	0.3
Game Protection Fund Transfers	(34.8)
Children's Health Program	(25.2)
IHRIS Loan Repayment	<u>(0.7)</u>
<b>Total</b>	<b>\$1,427.6</b>