

Resources

The adopted 2004-06 budget includes \$27.3 billion in general fund resources available for appropriation. This figure excludes the \$300.5 million in existing revenue transferred to the Virginia Health Care Fund, and also excludes the increase in the cigarette and other tobacco products tax of \$308.9 million that will be deposited to the Health Care Fund for Medicaid costs.

General Fund Resources Available for Appropriation (2004-06 biennium, \$ in millions)	
* Beginning Balance	\$273.9
Adjustments to the Balance	(1.0)
Official GF Revenue Estimate	25,545.3
Lottery Proceeds	797.0
Transfers	<u>670.9</u>
General Fund Resources Available for Appropriation	\$27,286.1
<i>* Note: Beginning balance reflects the projected unspent balance in House Bill 29, as adopted, and does not reflect the actual balance as of June 30, 2004.</i>	

Available Balance

The adopted budget includes \$273.9 million as a projected unspent balance at the end of the 2002-04 biennium. This balance results primarily from: (1) continued strengthening of the economy in FY 2004, (2) Tax Amnesty collections of \$44.7 million above the estimate, and (3) the flexible grant that Virginia received under the Federal Jobs and Growth Tax Relief Act of 2003.

Economic Projections

The underlying 2004-06 general fund revenue forecast, without tax policy changes, assumes economic growth rates of 5.3 percent for FY 2005 and 5.1 percent for FY 2006, resulting in projected collections of \$25,056.2 million. The forecast assumes that major economic variables affecting the forecast -- jobs, personal income, and wage/salary growth -- will reach trend levels achieved

prior to the technology-driven stock market bubble and will meet or slightly exceed projected national growth rates.

Economic Variables Assumed In Forecast				
Percent Growth Over Prior Year				
(December 2003 Forecast)				
	<u>FY 2005</u>		<u>FY 2006</u>	
	<u>VA</u>	<u>U.S.</u>	<u>VA</u>	<u>U.S.</u>
Employment	2.4%	2.2%	2.2%	2.0%
Personal Income	5.7%	5.5%	5.7%	5.7%
Wages & Salaries	5.9%	6.0%	5.7%	5.8%

Economic Forecast of General Fund Revenues				
Projected Growth Without Tax Policy Changes				
(2004-06 biennium, \$ in millions)				
	<u>FY 2005</u>	<u>% Growth</u>	<u>FY 2006</u>	<u>% Growth</u>
Net Individual	\$7,743.1	7.0%	\$8,211.3	6.0 %
Corporate	384.9	1.9%	394.6	2.5 %
Sales	2,622.0	4.6%	2,749.5	4.9 %
Insurance	381.2	9.6 %	414.9	8.8 %
Public Service	86.3	2.3%	89.1	3.2%
All Other	<u>998.2</u>	(5.0%)	<u>981.1</u>	(1.7%)
Total Revenues	\$12,215.7	5.3%	\$12,840.5	5.1%

Tax Policy Changes

The 2004-06 budget also includes approximately \$1.5 billion in revenue that will be derived from enactment of both general fund and special fund tax policy changes. This includes changes implemented pursuant to House Bill 5018 (2004 Special Session I) as well as a number of tax policy actions taken in other

legislation, including the Appropriation Act. The impact of each revenue action is detailed in the tables below, which outline separately changes resulting from HB 5018 and those resulting from other tax policy actions.

HB 5018 Tax Policy Actions (\$ in millions)	FY 2005 Revenue Impact	FY 2006 Revenue Impact
General Fund Changes		
<u>Individual Income Tax</u>		
Increase personal exemption from \$800 to \$900 (effective date earlier if Secretary of Finance identifies required \$29.4 million).		(\$14.7)
Increase standard deduction for married to \$6,000 (eliminate marriage penalty).	(10.4)	(20.1)
Raise filing threshold for filing tax returns from \$5,000 single and \$8,000 married to \$7,000/\$14,000.	(2.3)	(4.5)
Means test \$12,000 age deduction for persons turning 65 after January 1, 2004; eliminate \$6,000 deduction for persons aged 62-64, for those who become 62 after January 1, 2004. (When applying means test, reduce benefit \$1 for every \$1 of income over \$50,000 for single filers and \$75,000 for married filers.)	44.0	52.8
Provide alternative to low income tax credit which eliminates the "cliff effect" when income goes \$1 over the poverty level.		(24.3)
<u>Sales Tax</u>		
Increase sales tax on non-food items by ¼ percent on August 1, 2004.	\$167.0	\$210.7
Lower sales tax on food by one-half percent each on July 1, 2005; July 1, 2006 and July 1, 2007.		(51.9)
Eliminate public services sales tax exemption.	61.9	74.5
Adopt streamlined sales tax statute, without sourcing rules that would change where the tax is allocated, effective July 1, 2006.		
*Note: Estimates reflect August 1, 2004 implementation date for HB 5018. Because of the delayed enactment of the legislation, provisions previously assumed to take effect August 1, 2004		

will be delayed until September 1, 2004 resulting in a cumulative reduction in revenues available in FY 2005 of \$50.7 million.

Corporate Tax

Eliminate ability to lower tax liability through payments to subsidiaries for "intangible assets" (Delaware Holding Co.).	\$34.0	\$22.4
Require "pass-through entities" to identify owners.	2.0	6.0

Recordation Tax

Recordation tax increase of 10 cents per \$100 of value.	105.1	119.0
Net General Fund Impact of HB 5018	\$401.3	\$369.9

Special Fund Changes

Cigarette Tax

Increase state cigarette tax from 2.5 cents per pack to 20 cents per pack on August 1, 2004 and 30 cents per pack on July 1, 2005; impose 10 percent excise tax on other tobacco products at wholesale level, effective March 1, 2005.	\$109.5	\$199.4
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Sales Tax

Increase sales tax on non-food items by ¼ percent and dedicate to public education through deposit to Public Education SOQ/ Local Real Estate Property Tax Relief Fund	167.0	210.7
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Net Special Fund Impact of HB 5018	\$276.5	\$410.1
Total Net Revenue Impact of HB 5018 (GF and Special)	\$677.8	\$780.0

*Note: Estimates reflect August 1, 2004 implementation date for HB 5018. Because of the delayed enactment of the legislation, provisions previously assumed to take effect August 1, 2004 will be delayed until September 1, 2004 resulting in a cumulative reduction in revenues available in FY 2005 of \$50.7 million.

In addition to the tax policy changes included in HB 5018, a number of other provisions adopted by the 2004 General Assembly result in general fund revenue changes as detailed in the table below.

Other Tax Policy Actions (\$ in millions)	FY 2005 Revenue Impact	FY 2006 Revenue Impact
Conform to federal Military Family Tax Relief Act which allows benefits such as deduction of some travel expenses for National Guardsmen and a capital gain exclusion for military personnel who sell a home owned for less than two years.	(\$2.4)	(\$2.0)
Conform to federal treatment of medical savings accounts.	(3.6)	(3.6)
Conform to recent federal tax changes, allowing companies to deduct up to \$100,000 in equipment purchases as business expenses	(11.2)	(5.6)
Increase auto rental tax to 6% from 4%	14.0	14.0
Collect sales tax on prepaid phone cards (HB 246)	0.8	0.8
Increase Service of Process Fee (SB 649)	1.6	1.6
Implement ABC Price Increase, Sunday Sales, License and Banquet Fee Increases	14.5	14.5
Net Revenue Impact of Other Tax Actions	\$13.7	\$19.7

Transfers to the General Fund

Transfers to the general fund increase total available resources by roughly \$1.5 billion. Of this amount, \$797.0 million represents the transfer of lottery profits estimated at \$395.0 million in FY 2005 and \$402.0 million in FY 2006, and \$377.7 million represents the ¼ percent sales tax increase deposited to the Public Education SOQ/ Local Real Estate Property Tax Relief Fund.

Other customary transfers include ABC profits of \$24.9 million for the biennium, with an additional \$62.7 million per year in ABC profits and \$9.9 million per year in wine tax profits going to the Department of Mental Health,

Mental Retardation and Substance Abuse Services (MHMRSAS) for substance abuse programs.

The majority of NGF transfers required in the 2002-04 budget to help offset revenue shortfalls have been eliminated in the 2004-06 budget. A targeted NGF reduction of \$30.2 million for the biennium, derived from a number of agencies, is included in transfer actions.

An additional \$2.6 million per year is included as a transfer from the Department of Alcoholic Beverage Control (ABC) due to on-going efficiencies in the department, and \$21.2 million is included as a transfer from NGF agencies related to a group life insurance premium holiday. The adopted budget also assumes the continued transfer of \$10.0 million per year from DMV/VIPNet fees through the 2004-06 biennium, and the transfer of \$6.9 million from additional “\$4-for-Life” funds. Each of the major transfers is detailed in the table below.

Transfers to General Fund in Adopted Budget (2004-06 biennium, \$ in millions)	
Lottery Profits	\$797.0
¼ percent Increase in Sales Tax from Public Education	377.7
SOQ/Local Real Estate Property Tax Relief Fund	
ABC to Dept. MHMRSAS for Substance Abuse	145.2
ABC Profits	24.9
Unrefunded Marine Fuels Tax	14.8
Sales Tax Compliance & Indirect Cost Recoveries	32.6
Targeted NGF Reductions	30.2
NGF Share of Group Life Premium Holiday	21.2
IDEA Funds	11.0
Uninsured Motorist Fees	12.1
Transfer Sales Tax to Game Protection Fund	(26.7)
Transfer to Children’s Health Program	(28.1)
Eliminate Transfer of UVA Med. Ctr. Interest Earnings	(4.0)
VDH: Vital Records Fee Increase	1.8
VDH: Add’l Funding From “\$4-for-Life’	6.9
Other Miscellaneous Transfers	28.3
Sale of ABC Regional Office	3.0
Continue Transfer of DMV/VIPNet Fees	<u>20.0</u>
Total	\$1,467.9

Other Changes to Revenue Estimates

Beyond the improved economics, the inclusion of tax policy changes, and transfers to the general fund, revenue growth is buoyed somewhat by the receipt of \$52.6 million each year from concluding the current Tax Public/Private Partnership contract with American Management Systems (AMS). Under the Partnership agreement, which began in 1998, most of the enhanced compliance collections that were specifically tied to Partnership efforts were used to pay the contractor for expertise and equipment that were used to enhance collections. When the existing contract obligation ends on June 30, 2004, enhanced collections will be deposited to the general fund.

The revenue forecast also is decreased by \$2.3 million per year for reduced payments by the Immigration & Naturalization Service for incarceration of illegal aliens. Finally, revenues are increased by \$1.9 million per year to reflect increased debt collections by the Attorney General's office.

Transfers from the General Fund

Pursuant to the provisions of HB 5018, the adopted budget transfers the following existing general funds into a new dedicated health care fund:

Revenues Deposited into Va. Health Care Fund (\$ in millions)	FY 2005 Revenue Impact	FY 2006 Revenue Impact
Move current 2.5 cents per pack cigarette tax to new Virginia Health Care Fund.	\$15.1	\$15.1
Move current GF share of Tobacco MSA to new Virginia Health Care Fund.	50.5	51.1
Move Medicaid recoveries to new Virginia Health Care Fund (includes anticipated recoveries above the base and anticipated \$49.2 million from hospital overpayments for Medicare Crossover re-pricing).	103.2	65.5
Deposit new cigarette and other tobacco products tax into Virginia Health Care Fund.	109.5	199.4

Official General Fund Forecast Reflects All Assumed Changes

With the inclusion of the tax policy changes adopted by the General Assembly and the revised economic forecast, the official 2004-06 revenue forecast reflects general fund tax revenue growth of 7.4 percent in FY 2005 and 5.2 percent in FY 2006. This results in projected general fund revenues of \$25,545.3 million over the biennium. This figure does not include the transfer of \$300.5 million in existing revenue transferred to the Virginia Health Care Fund or the increase in the cigarette and other tobacco products tax of \$308.9 million that will also be deposited to the Health Care Fund. In addition, the ¼ percent increase in the general sales and use tax dedicated to public education pursuant to HB 5018, totaling \$377.7 million over the biennium, is excluded from the general fund forecast set out below.

<p align="center">Forecast of General Fund Revenues Including Revenues From Tax Policy Changes* (2004-06 biennium, \$ in millions)</p>				
	<u>FY 2005</u>	<u>% Growth</u>	<u>FY 2006</u>	<u>% Growth</u>
Net Individual	\$7,770.4	7.4%	\$8,200.9	5.5 %
Corporate	407.7	11.4%	411.4	0.9 %
Sales	2,852.2	13.8%	2,984.1	4.6%
Insurance	381.2	9.6 %	414.9	8.8 %
Public Service	86.3	2.3%	89.1	3.2%
All Other	<u>954.0</u>	(9.4%)	<u>993.1</u>	4.1%
Total Revenues	\$12,451.8	7.4%	\$13,093.4	5.2%
* Excludes transfers and balances				