

General Fund Revenues Available for Appropriation

The budget, as introduced, includes \$868.8 million in additional revenues. However, this amount includes the entire FY 1998 revenue surplus of \$156.7 million, of which only \$33.0 million was undesignated. Out of the FY 1998 revenue surplus, \$79.1 million is required to be paid to the Revenue Stabilization Fund and \$44.5 million is required to be paid to the Water Quality Improvement Fund. In addition, \$19.9 million represents a fund switch required by the Governor's veto of the Capital Expenditure Fund (SB 476). The fund switch on the revenue side is matched by a fund switch on the expenditure side, so there is no overall effect on the general fund. Therefore, when these amounts are accounted for, there is actually an additional \$725.3 million GF available for appropriation in the budget, as introduced.

General Fund Revenues Available for Appropriation (\$ in Millions)		
	<u>As Introduced</u>	<u>Change From Chapter 1 (1998)</u>
Unappropriated and Additions to the Balance	\$ 927.0	\$ 157.5
Official Revenue Estimates	19,450.8	749.1
Transfers	<u>775.7</u>	<u>(37.8)</u>
Total General Fund Revenues Available for Appropriation	\$ 21,153.5	\$ 868.8
Rainy Day / Water Quality and Capital Expenditure Fund	<u>(143.5)</u>	<u>(143.5)</u>
Net General Funds Available for Appropriation	\$ 21,010.0	\$ 725.3

- **Additions to the Balance.** The increased balance of \$157.5 million results primarily from: 1) the \$156.7 million FY 1998 revenue surplus;

2) \$27.5 million in discretionary agency balances that were not re-appropriated; 3) \$12.3 million in mandatory Compensation Board and Health Department balances that were reverted; and 4) a \$35.6 million balance reduction resulting from a delay in federal approval for use of TANF funds for the earned income tax credit (HB 848). This balance reduction is offset by an increase in GF revenue. Therefore, there is no actual impact on revenues available for appropriation as a result of the delay in federal approval for use of TANF funds.

As mentioned earlier, a total of \$123.6 million of the FY 1998 surplus is designated for the Revenue Stabilization and Water Quality Improvement Funds. Other balance changes are listed on the table at the end of this section.

- **General Fund Revenue Growth.** The introduced budget anticipates \$749.1 million in 1998-00 general fund revenues beyond the amount projected last year. This amount includes the \$35.6 million offsetting revenue adjustment for the earned income tax credit mentioned above.

Additional revenues result primarily from: the fiscal year 1998 surplus which increases the base going forward; higher than projected growth in wages and salaries; and continued good prospects for capital gains taxable income growth.

	FY 1999	
	<u>Official</u>	<u>Revised</u>
Wage and Salary Growth	6.3%	7.5%

Overall, the new forecast assumes general fund revenue growth of 8.1 percent in FY 1998 and 5.0 percent in FY 2000.

Proposed Tax Policy Changes

Included in the revenue estimates are several tax policy changes that reduce general fund revenues by \$14.1 million in the second year. Since each of the proposals take effect beginning January 1, 2000, the full year cost is not reflected in the biennial budget ending June 30, 2000. The following table shows the FY 2000 and full year FY 2001 cost for each proposed change.

Tax Policy Proposals in the Introduced Budget
(\$ Millions)

	<u>FY 2000</u>	<u>FY 2001</u>
Historic Rehabilitation Credits	(\$0.8)	(\$0.7)
Interest Equalization for Tax Due / Refund Payable	(1.4)	(2.8)
Corp. Income Tax Apportionment Double-Weight Sales Factor	(7.2)	(14.6)
\$15,000 Military Pay Exclusion	<u>(4.7)</u>	<u>(9.4)</u>
Total	(\$14.1)	(\$27.5)

The Governor's proposed change to the historic rehabilitation tax credit would allow partnerships to allocate the tax credits to their best tax advantage, rather than having to allocate the credits based on ownership percentages.

Currently, the Tax Department charges higher interest rates on delinquent tax due payments than it pays on taxpayer refunds. The Governor's legislation would equalize the interest rates so they are the same for both delinquent tax dues and tax refunds payable by the state.

Corporate income for tax purposes is currently apportioned to Virginia by a three-factor formula that equally weights employment, sales, and property. The Governor's proposal would double-weight the sales factor in this formula. If adopted, the apportionment formula would be weighted 50 percent sales, 25 percent employment, and 25 percent property. The effect of this change would be to reduce corporate income taxes on those companies that export the bulk of their production out-of-state, and increase corporate income taxes on distribution or wholesale companies located within the state.

The Governor is proposing a \$15,000 individual income tax exclusion for active-duty military basic pay. The exclusion would decline dollar-for-dollar when basic pay exceeds \$15,000, and would phase out entirely when basic pay equals \$30,000 or more.

All other revenue changes are listed on the table at the end of this section, and include \$5.0 million from a Virginia Power rate reduction agreement and \$2.9 million in additional Medicaid recoveries.

- **Transfers.** General fund transfers are reduced by \$37.8 million, primarily from a projected lottery profit shortfall of \$36.0 million in FY 1999 and \$34.7 million in FY 2000. The lottery reduction is predicated on a historically low interest rate forecast which then assumes lower Lotto and Big Game jackpots (and thus lower sales). In addition, most Virginia daily and scratch lottery games are maturing and experiencing flat to lower sales. The revised projection assumes lottery profits of \$314.4 million in FY 1999 (including a \$5.0 million reserve elimination), and \$310.3 million in FY 2000.

Other transfer reductions include \$3.0 million from the Virginia Power rate reduction to reimburse federal funds and auxiliary enterprises for their share of the reduction and to install electric meters that will determine actual real-time agency electricity usage in advance of electric utility deregulation by the year 2002.

Significant transfer increases include \$11.3 million that is moved from the Water Quality Improvement Fund for appropriation to combined sewer overflow projects; \$3 million from additional contract prison revenues, and \$1.3 million from nongeneral fund auto insurance balances.

As stated earlier, the \$19.9 million Capital Expenditure Fund transfer is matched by a \$19.9 million GF capital expenditure so that there is no net effect on the general fund. Other transfer changes are listed in the table at the end of this section.

Changes in Revenues Available for Appropriation (Since April, 1998)

Additions to Balances:

<u>Amendment</u>	<u>\$ Millions</u>
FY 1998 Surplus Revenues	\$ 156.7
Discretionary Reappropriations Withheld	27.5
Compensation Board Reversion	10.0
Dept. of Health Reversion	2.3
Capital Outlay Balances	0.4
VA Racing Commission Loan Repayment	0.2
Relief Bills	(0.2)
DOC Agribusiness (correct coding error)	(0.2)
Federal Cash Management Act	(0.4)
Hurricane Bonnie	(3.2)
EITC Delayed Federal Approval	<u>(35.6)</u>
Total Addition to Balance Changes	\$ 157.5

Revenues:

<u>Amendment</u>	<u>\$ Millions</u>
December Revenue Forecast	\$ 723.1
EITC Delayed Federal Approval	35.6
Virginia Power Refund	5.0
Medicaid Recoveries	2.9
UNIX Server Recovery from Feds – DSS	0.8
Insurance Premiums Retaliatory Tax Credit	0.4
Investment Managers Selection (Legis.)	0.1
Va. Education Savings Trust (Legis.)	(0.1)
Operations of Racetrack	(1.6)
Tax Due / Payable Interest Equalization (Legis.)	(1.4)
Historic Rehab. Tax Credit (Legis./ use)	(3.8)
Military Pay Exclusion (Legis.)	(4.7)
Double Weight Sales Factor (Legis.)	<u>(7.2)</u>
Total Revenue Changes	\$ 749.1

Transfers:

<u>Amendment</u>	<u>\$ Millions</u>
Capital Expenditure Fund Veto (SB 476)	\$ 19.9
Water Quality Fund Transfer for CSO	11.3
Contract Prison Revenues	3.0
Auto Insurance NGF Balances	1.2
NGF Indirect Costs	0.7
Contract Collector Costs at Tax	0.5
Unrefunded Marine Fuels	0.3
Local Sales Tax Compliance	(0.1)
Unclaimed Property from Lottery Prizes	(0.4)
DIT Rate Reduction	(0.5)
Virginia Power Refund Disbursement	(3.0)
Lottery Profits	<u>(70.7)</u>
Total Transfer Changes	\$ (37.8)