Resources

The Governor's proposed 2004-06 budget includes $27.0 billion in general fund resources available for appropriation. Included in the HB/SB 30 revenues of $25,631.9 million is increased revenue from the Governor's tax proposal and reductions related to the proposed transfer of existing general funds to new Health Care and Natural Resources special funds. Absent these proposed tax features, biennial general fund revenues would total $25,056.2 million.

General Fund Resources Available for Appropriation
(2004-06 biennium, $ in millions)

Beginning Balance	$358.4
Adjustments to the Balance	(1.0)
Official GF Revenue Estimate	25,631.9
Transfers	1,046.5
Additional GF Resources Available for Appropriation	**$27,035.8**

Available Balance

HB/SB 30 includes $358.4 million as a projected unspent balance at the end of the 2004-06 biennium. This balance results primarily from: (1) the ripple effect of a $55.2 million revenue surplus in FY 2003 and 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 the Governor's tax proposal, 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 Forecast)

	FY 2005		FY 2006	
	VA	U.S.	VA	U.S.
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
Actual Projected Growth, No Assumption Regarding Tax Increases
(2004-06 biennium, $ in millions)

	FY 2005	% Growth	FY 2006	% Growth
Net Individual	$7,728.1	6.8%	$8,201.3	6.1%
Corporate	419.9	(1.8%)	429.6	2.3%
Sales	2597.0	5.7%	2,719.5	4.7%
Insurance	391.2	9.3%	424.9	8.6%
Public Service	86.3	2.3%	89.1	3.2%
All Other	993.2	(4.5%)	976.1	(1.7%)
Total Revenues	**$12,215.7**	**5.3%**	**$12,840.5**	**5.1%**

Adjusted Revenue Forecast

As a result of including the Governor's tax proposal, the 2004-06 introduced budget reflects general fund tax revenue growth of 6.9 percent in FY 2005 and 6.8 percent in FY 2006, resulting in projected revenues of $25,631.9 million. This figure is net of proposed transfers of existing revenue to the

Virginia Health Care Fund and the Natural Resources Fund, and the figure does not include the proposed increase in the cigarette tax of $292.3 million.

Governor's Tax Proposal

The Governor's proposed 2004-06 budget includes assumed revenues of $1,184.4 million that would be derived from enactment of the tax policy changes included in the proposed tax proposal. The impact of each proposed revenue action is detailed in the table below. All changes in tax policy are effective January 1, 2005, unless otherwise noted.

Governor's Tax Proposal	FY 2005 Revenue Impact	FY 2006 Revenue Impact
Individual Income Tax:		
Increase personal exemption from $800 to $1,000.	(29.3)	(56.2)
Increase standard deduction from $3,000 single and $5,000 married to $4,000/$8,000.	(54.2)	(104.5)
Reduce tax rate for all filers from 5% to 3% on $2,000 of income and from 5.75% to 5.0% on $3,000 of income.	(89.0)	(171.2)
Add a top bracket - increase tax rate from 5.75% to 6.25% for taxable income over $100,000.	96.6	195.9
Raise filing threshold for filing tax returns from $5,000 single and $8,000 married to $7,000/$14,000.	(2.3)	(4.5)
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 less than two years.	(2.4)	(2.0)
Means test $12,000 age deduction for persons turning 65 after January 1, 2005; eliminate $6,000 deduction for persons aged 62-64, for those who become 62 after January 1, 2005. (When applying means test, reduce benefit $1 for every $2 of income over $50,000 for single filers and $75,000 for married filers.)	9.2	35.0

Governor's Tax Proposal	FY 2005 Revenue Impact	FY 2006 Revenue Impact
Lower sales tax on food by one percent on July 1, 2004; lower by additional one-half percent on July 1, 2005.	(101.2)	(165.1)
Increase sales tax on non-food items by one percent on July 1, 2004.	727.1	832.6
Eliminate requirement that vendors accelerate the remittance of sales tax in the month of June, effective June 2005. (One-time)	(181.0)	
Adopt streamlined sales tax statute, without the sourcing rules that would change where the tax is allocated, effective July 1, 2006.		
Corporate Tax		
Eliminate three corporate tax loopholes:		
Eliminate ability to lower tax liability through payments to subsidiaries for "intangible assets".	34.0	22.4
Eliminate "nowhere income," ensuring that profits on good shipped from Virginia are taxed in Virginia, unless they are taxed in another state (sales throwback provision).	10.6	7.3
Require "pass-through entities" to identify owners.	2.0	6.0
Conform to recent federal tax changes, allowing companies to deduct up to $100,000 in equipment purchases as business expenses.	(11.2)	(5.6)
Estate Tax		
Eliminate estate tax on (1) working farms and closely held businesses (if they comprise the majority of the estate), and (2) estates valued up to $10 million.	(50.9)	(63.3)

Governor's Tax Proposal	FY 2005 Revenue Impact	FY 2006 Revenue Impact
Cigarette Tax		
Increase state cigarette tax from 2.5 cents per pack to 25 cents per pack; cap total state/local cigarette tax at 75 cents per pack (*Expand taxing authority to counties over 3 years, beginning July 1, 2004*).	146.5	145.8
Phase car tax reimbursement from 70 percent to 77.5 percent in CY 2005 and 85 percent in CY 2006.	25.8	130.8
Net Revenue/Expenditure Impact of Proposed Tax Reform (*Includes impact of additional car tax relief*)	**$481.6**	**$546.2**
Note: Individual actions do not add to the total because of the interactive effect of proposed income tax changes.		

In addition to proposed revenue changes and car tax relief, the Governor's tax proposal includes proposed transfers of existing general funds into new dedicated special fund accounts as follows:

Fund Shifts Included in Governor's Tax Proposal	FY 2005 Impact	FY 2006 Impact
Transfer GF Revenues into New Special Funds		
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.	(53.7)	(54.6)

Fund Shifts Included in Governor's Tax Proposal	FY 2005 Impact	FY 2006 Impact
Move Medicaid recoveries to new Virginia Health Care Fund. (also, deposit anticipated $49.2 million from hospital overpayments for Medicare Crossover re-pricing to Virginia Health Care Fund).	(45.0)	(45.0)
Move collections from existing $10 Deed Recording Fee from GF to new Virginia Natural and Historic Resources Fund	(2.8)	(2.8)
Virginia Health Care Fund (Special Fund)		
Cigarette tax (including increase of $292.3 million), Tobacco Master Settlement Agreement (40% share) and projected Medicaid recoveries (including reimbursement for hospital overpayments for Medicare crossover pricing).	310.7	276.3
Va. Natural Resources and Historic Resources Fund (Special Fund)		
Move collections from existing $10 Deed Recording Fee from GF to new Virginia Natural and Historic Resources Fund.	2.8	2.8
Clarify that $10 Deed Recording Fee is to apply to mortgage refinancings as well as new recordings.	12.3	12.3

Other Changes to Revenue Estimates

Beyond the improved economics and inclusion of proposed tax policy changes, revenue growth is buoyed somewhat by the receipt of $52.6 million each year from the end of 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 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.

Official General Fund Forecast Reflects All Assumed Changes

The official revenue forecast includes the revised economic forecast, as well as the tax policy changes outlined above, with the exception of the cigarette tax increase which would be deposited to a new health care fund. In combination, these changes would result in total general fund growth rates of 6.9 percent in FY 2005 and 6.8 percent in FY 2006.

Forecast of General Fund Revenues
Including Revenues Derived From Governor's Tax Proposal
(2004-06 biennium, $ in millions)

	FY 2005	% Growth	FY 2006	% Growth
Net Individual	$7,661.6	5.9%	$8,104.1	5.8%
Corporate	453.3	9.0%	453.7	0.1%
Sales	3,041.9	23.8%	3,387.0	11.3%
Insurance	391.2	9.3%	424.9	8.6%
Public Service	86.3	(0.7%)	89.1	3.2%
All Other	763.0	(26.7%)	775.8	2.1%
Total Revenues	**$12,397.3**	**6.9 %**	**$13,234.6**	**6.8%**

Transfers

Proposed transfers to the general fund increase total available resources by $1.0 billion. Of this amount, $797 million represents the transfer of lottery profits estimated at $395 million in FY 2005 and $402 million in FY 2006.

Other customary transfers include ABC profits of $24.9 million for the biennium, with an additional $48.2 million per year of ABC profits and $9.9 million per year of wine tax profits going to the Department of MHMRSAS for substance abuse programs.

The majority of NGF transfers required in the 2002-04 budget to help offset the revenue shortfall have been discontinued in the 2004-06 budget. A targeted NGF reduction of $30.0 million for the biennium, derived from a number of agencies, is included in HB/SB 30 transfer actions, with contingent language indicating that the amount will be increased to $52.0 million, if the Governor's proposed tax package is not enacted.

An additional $2.6 million per year is included as a transfer from the ABC Department related to on-going efficiencies in the department, and $21.2 million is included as a transfer from NGF agencies related to a proposed group life premium holiday. HB/SB 30 assumed the continued transfer of $10.0 million per year from DMV VIPNet fees through the 2004-06 biennium.

Proposed Transfers in HB/SB 30, As Introduced

Lottery Profits	$797.0
ABC to Dept. MHMRSAS for Substance Abuse	116.2
ABC Profits	24.9
Unrefunded Marine Fuels Tax	14.8
Sales Tax Compliance & Indirect Cost Recoveries	32.6
Targeted NGF Reductions	30.0
NGF Share of Group Life Premium Holiday	21.2
IDEA Funds	11.0
Uninsured Motorist Fees	10.0
Transfer Sales Tax to Game Protection Fund	(26.7)
Transfer to Children's Health Program	(28.1)
Miscellaneous Other	23.5
Continue to Transfer DMV VIPNet Fees	20.0
Total	**$1,046.4**