



VIRGINIA HOUSE
APPROPRIATIONS
COMMITTEE

CHAIRMAN LUKE E. TORIAN

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BALANCING HOUSE BILLS 6001 AND 6002

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PURPOSE OF THE TAX POLICY CHANGES

- The adoption of the digital economy modernization was not driven by a systematic look at Virginia's tax structure
- It was an option made available because the Governor included components of it in the Introduced Budget
- The reason the legislature adopted the changes was first and foremost to provide an avenue to fund the expansion of programs key to your constituencies
- Since December, the Commonwealth's revenue collections have been far stronger than anticipated, and we can fund all components of the Conference Report spending package in FY 2024, FY 2025, and FY 2026 without making any tax policy adjustments

PURPOSE OF THE TAX POLICY CHANGES

- An analysis of the six-year financial plan indicates that these funding levels could be sustained through 2030 without modernizing the tax system
- That said, not every legislative goal was contained in the Conference Report, and additional funding could be needed in the out-years to expand upon current initiatives and revamp the K-12 funding system
- Given that this year's package can be accommodated within the existing resources, tax system modernization can be deferred until next year, following a more comprehensive review of potential changes through the Tax Policy Commission, language for which is included in HB 6001

POSSIBLE TO FUND ALL CONFERENCE REPORT ITEMS WITH NO TAX POLICY CHANGES

Reflect FY 2024 Revenue Collections

Adopt Technical Amendments

Utilize Additional Debt to Support Capital Outlay Projects

Use Portion of Unencumbered Literary Fund Balances

Reduce Medicaid Reserve

Capture VPI Nonparticipation Savings

REFLECT FY 2024 REVENUE COLLECTIONS

- Official FY 2024 general fund forecast assumes a revenue contraction of 0.6%
- Year-to-date growth through April was 5.0%, putting revenue \$1.12 billion ahead of forecast
 - Of this total, \$536 million comes from withholding tax revenues, our largest and least volatile source
- Year-end revenue collections may well exceed the current forecast by more than \$1.2 billion
- HB 6001 (HB 30) and HB 6002 (HB 29) assume that the FY 2024 forecast is increased by \$525 million
 - This will increase the assumed carryforward into FY 2025
 - Any base adjustments can be picked up as part of the standard fall revenue forecasting process

ADOPT TECHNICAL AMENDMENTS

- Included in the two bills are technical savings amendments totaling \$115.9 million
- The vast majority reflects legislation that was vetoed or amended
 - Largest item is the funding set aside for the increases in the minimum wage, which totaled \$80 million
- These changes represent an “easy take” to allow the budget to be balanced with no tax policy adjustments

ADJUST FUNDING FOR CAPITAL OUTLAY

- The Conference Report included \$1.4 billion cash and \$386 million debt for Capital Outlay projects
- For context, the Debt Capacity Advisory Committee recommended (based on the long-standing 5% of revenues cap) that no more than \$1.06 billion of debt be issued each year
- House Bills 6001/6002 assume that all projects be retained but \$516 million cash be swapped for debt
 - This would mean the GA would be approving just over 40% of the debt capacity for the two years, and does not utilize any of the out-year capacity, leaving \$1.1 billion annually available thereafter

USE OF LITERARY FUND

- Conference Report committed \$400 million from the Literary Fund - \$150 million for teacher retirement in FY 2025 and \$250 million for loans split over the biennium
- HB 6001 moves the \$150 million of Literary Funds from FY 2025 to FY 2026 but makes no changes to the overall amounts

MEDICAID RESERVE FUND

- Conference Report set aside \$150 million GF as a reserve for potentially higher Medicaid costs in FY 2025 and FY 2026
- There was no magic to this figure – the final amount was based on the amount available after the legislative spending priorities had been met
- HB 6002 assumes higher than anticipated Health Care Fund revenues – adds \$40 million to the current year appropriation to offset Medicaid costs
- HB 6001 includes \$95 million for the Medicaid Reserve in FY 2025
 - Forecast will be revisited as part of the annual fall Official Medicaid Forecast update

VPI NONPARTICIPATION SAVINGS

- Historically, the budget has assumed 20% of eligible students would not use VPI, when the actual non-utilization rate has been around 32-33%
- The Introduced budget proposed funding VPI based on the actual enrollment figures, saving \$71.1 million over the biennium
- HB 6001 adopts that methodology, generating the savings that had been contained in HB 30 as introduced

HB 6001 AND HB 6002 SUMMARY

- Retains all spending items from the Conference Report
- Recognizes an additional \$525 million in FY 2024 withholding revenues (no base adjustment)
- Adopts the Governor's technical amendments related to vetoed and amended bills (frees up \$116 million)
- Adjusts FY 2025 only for ABC profits forecast reduction
- Swaps cash for debt for \$516 million of capital projects
- Reduces Medicaid reserve fund in FY 2024 from \$150 million to \$95 million and recognizes \$40 million additional in Health Care Fund
- Captures VPI non-participation savings
- Provides \$56 million for 2% annual salary increases for personal care providers
- Recognizes additional \$25 million in FY 2024 lottery revenues (will be distributed in FY 2025 as lottery per pupil payments)
- These actions leave an unappropriated balance of \$17.6 million