Department of Planning and Budget
2001 Fiscal Impact Statement

1. **Bill Number** SB1382

House of Origin	☒ Introduced	☐ Substitute	☐ Engrossed
Second House	☐ In Committee	☐ Substitute	☐ Enrolled

2. **Patron** Barry

3. **Committee** Finance

4. **Title** Virginia Investment Act of 2000.

5. Summary/Purpose:

   Limits the rate of growth of state expenditures to the total of annual percentage changes in population and cost of living, but in no event greater than the three-year average of change in per capita personal income. Revenues in excess of the capped expenditure amount shall be deposited into the Virginia Investment Account, which is established. Money in the Account shall be appropriated only for capital transportation projects, public school construction, higher education capital projects, research and development projects relating to economic development, and reducing bonded indebtedness, and to address emergencies. The amount of annual deposits to the Account is capped at five percent of the excess of revenues over expenditures, including deposits to the Revenue Stabilization Fund and Water Quality Improvement Fund, in a fiscal year. The excess revenue over the amount required to be deposited in the Account is to be refunded pro rata on annual income tax returns. The limit on the rate of general fund growth may be exceeded if the Governor declares an emergency.

   The bill also prohibits the imposition upon localities of any part of the total cost of new programs or services, or increases in existing services, unless a specific appropriation is made to the political subdivision for that purpose. It provides that the proportion of state revenues paid to all political subdivisions of the Commonwealth shall not be reduced below that proportion in effect on July 1, 1999.

6. Fiscal Impact Estimates are:

   6a. Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2000-01			
2001-02	$360,280	9	GF
2002-03	$1,390,710	9	GF

7. Budget amendment necessary: Yes.
   Items 279 and 280, Department of Taxation
   Item 287, Department of the Treasury

8. Fiscal implications:

If enacted, this bill would apply to the 2002 Budget Bill introduced in January 2002 for the 2002-04 biennium. However, the Virginia Investment Account would be created effective July 1, 2001, with the first deposit to be made in FY 2002.

The bill limits the growth in spending in the Governor's proposed budget, but no similar limitation is provided for the enacted Appropriation Act. It is unclear as to how exactly that limitation will be calculated. For example, the limit does not apply to certain types of expenditures but the excluded types named in the bill do not follow the standard state classification for expenditures. A case in point is student tuition and fees. It is not clear whether student tuition and fees is to be included under "user fees" in the bill or not.

Another issue is the timeliness of data. The bill requires personal income as reported by the U.S. Department of Commerce and population as reported by the U.S. Bureau of the Census. The cited sources report on a historical basis, and the information may lag for a significant period of time. The sources do not make projections for the future, thus it is problematic as to how such historical data would be used in budget development.

There are many items in the budget that have no relationship to either population or inflation. Among them are medicaid, car tax relief, HB 599 payments, debt service payments, and deposits to the Revenue Stabilization Fund. Changes in these items are more related to policy adjustments such as changes in the federal budget and revenue collections. The percentage limitations specified in the bill thus would have to be applied, on a disproportionate basis, to other items or programs which vary according to population or inflation.

The bill would reduce the unreserved balance of general fund revenues available for appropriation. Any excess of revenues over expenditures subject to the five percent cap in the bill would be transferred to the Virginia Investment Account. Any amount above the cap would be rebated to taxpayers.

The bill would reduce general fund interest since it would move balances from the general fund to the Virginia Investment Account.

The bill prohibits a reduction in the proportion of "state revenue" distributed to localities below the level in effect on July 1, 1999.

Administrative Expenses

Department of the Treasury: The Department would incur additional operating expenses associated with processing the refund payments. The issuance of refund checks would be processed separately from regular tax refunds. This would require the Department of the Treasury to issue an estimated three million additional checks each year. Costs were determined based on the following assumptions and calculations:

Item	Check Volume	Per Item Cost	Item Cost
Postage	3,000,000	$0.29000	$870,000

Check Stock	3,000,000	.06547	196,410
Printer Maintenance Cost	3,000,000	.00410	12,300
Personnel Cost	3,000,000	.01000	30,000
TOTAL COST		**$0.35957**	**$1,078,710**

Department of Taxation: The Department of Taxation would incur administrative costs to implement a process to rebate excess revenues to taxpayers in anticipation that such rebates would be issued. To accurately track and verify that the proper amount of excess revenue to be rebated to Virginia individual income taxpayers, the Department of Taxation anticipates that nine additional full-time employees would be needed to answer telephone calls, process the returns, correct errors, calculate excess refunds, and assist in computation and verification of the proration of income tax revenue among taxpayers.

While this bill does have costs associated with systems development, these cannot be ascertained at this time. The cost for implementing a **single** piece of legislation cannot be calculated precisely due to economies of scale. The actual cost to implement **all** legislation enacted during a given session will more than likely be less than the sum of the costs attributed to individual bills. Further, the ability to accurately predict costs is complicated because the department is replacing its current database system. As a result, legislative changes may need to be made to both the current and the future system, depending on the effective date. Therefore, the department is not providing specific systems costs for this bill, but will calculate the total for all tax bills once they have been acted upon favorably in both houses and prior to the conference committee report. Other administrative costs associated with this bill are estimated to be $360,280 in Fiscal Year 2002 and $282,000 in Fiscal Year 2003 and thereafter.

9. Specific agency or political subdivisions affected:
   Department of the Treasury, Department of Taxation, Department of Planning and Budget, Auditor of Public Accounts.

10. Technical amendment necessary:
    The term "revenues" as used on Page 1, line 52, of the bill should be defined. Expenditures as defined in the bill could include nongeneral fund amounts, such as the Commonwealth Transportation Fund and various special funds.

    Page 2, line 72, after "(ii)", strike ","

11. Other comments: The bill prohibits the Governor from introducing a budget bill which increases state expenditures above the limit specified in § 2..1-191.6, Code of Virginia. However, it does not prohibit the General Assembly from doing so in its actions on the budget bill. The prohibition in the bill is also in conflict with § 2.1-398 of the Code which states "the Governor shall submit . . . a budget, based on his own conclusions and judgment. . . ."

The effect of the bill would be to remove unappropriated general fund balances as a source of funds for appropriation by transferring such balances to the Virginia Investment Account, with any balances in excess of the required transfer rebated to taxpayers.

If the bill were enacted into law, it could be overridden by a future General Assembly in the Appropriation Act, pursuant to § 4-11.00 of that act.

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cc: Secretary of Finance

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