Department of Planning and Budget
2002 Fiscal Impact Statement

1. **Bill Number** SB402

   House of Origin ☐ Introduced ☒ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron** Chichester

3. **Committee** Finance

4. **Title** Capital improvement plan and budget recommendations.

5. Summary/Purpose: This proposal establishes a formal six-year capital improvement plan. The bill defines the types of information this plan is to contain, specifies that the total value of the plan's capital outlay projects represent two percent of anticipated general fund revenues for each year, and explains under what circumstances will general fund cash or debt be used to finance the construction of the projects included in the plan. The proposal requires the Governor to submit this capital improvement plan on or before August 15th of the year immediately preceding the beginning of each regular session of the General Assembly held in an even-numbered year.

   The proposal also establishes a "Nonrecurring Expenditure Fund." This fund is to be used to finance nonrecurring expenses such as land acquisition, new construction of state-owned buildings, the improvement of existing state-owned buildings, and the purchase of equipment. The bill states this fund will consist of unobligated and undesignated general fund revenues in excess of the projected general fund revenues for the current fiscal year and the "projected abnormal growth" in the nonwithholding portion of the individual income tax. The proposal defines the projected abnormal growth in the nonwithholding portion of the individual income tax as the amount in excess of the average growth rate in this revenue stream for the most recently ended four-year period.

   Furthermore, amendments to this proposal would impose certain conditions upon the administration's ability to construct capital outlay projects included in three bills authorizing the issuance of debt to construct projects on college and university campuses, within the state parks system, and for a range of other state-owned cultural institutions and properties. Most significantly, these conditions impose an annual $250 million limit on the amount of debt the Commonwealth can incur to complete the capital outlay projects included in the three bills. The three bills affected by these amendments include: SB 31/HB 99 (the Commonwealth of Virginia Educational Facilities Bond Act of 2002), SB 672/HB 1144 (the Commonwealth of Virginia Park and Recreational Facilities Bond Act of 2002), and SB 673/HB 1284 (a bill to provide for certain projects to be financed by the Virginia Public Building Authority (VPBA) and the Virginia College Building Authority (VCBA)).

6. Fiscal Impact is INDETERMINATE

7. Budget amendment necessary: No.

8. Fiscal implications: Although the fiscal implications of this proposal cannot be determined, based upon the language contained in this proposal, it would appear that the establishment of a six-year capital improvement plan and the creation of a "nonrecurring expenditure fund" would not affect the

Commonwealth's financial resources during the coming biennium. Given the requirement that a six-year capital improvement plan be submitted by the Governor on or before August 15 of the fiscal year immediately preceding each regular session of the General Assembly held in an even-numbered year, such a plan would notbe introduced by the Governor until fiscal year 2004. Consequently, that plan would be unlikely to affect the allocation of general fund dollars in the current biennium. Similarly, the nonrecurring expenditure fund would not impact the current biennium because amendments to this proposal state that deposits to the Nonrecurring Expenditure Fund shall not begin until the fiscal year beginning July 1, 2004. However, these two components could certainly affect the allocation of general fund dollars in later biennia.

To determine the potential size of any future deposit into the new nonrecurring expenditure fund, the potential sources of money assigned to the fund must be examined. The proposal states that two sources of money should be deposited into the fund. The first source is the unobligated and undesignated general fund collections for each fiscal year that are in excess of the projected general fund revenues in the general appropriation act. The second is an amount equal to the projected abnormal growth in the nonwithholding portion of individual income taxes. Table 1 shows how this abnormal growth in the nonwithholding portion of the individual income tax would be calculated for previous fiscal years had such a fund been in existence during those years. Table 2 shows the total deposit required by this proposal for both the nonwithholding provisions of the bill and its provisions regarding the unobligated and undesignated general fund collections for previous years.

Table 1: Impact of Growth in Nonwithholding Portion of Income Tax ($ in Millions)

Fiscal Year	Nonwithholding Portion of Income Tax Revenues	Annual Dollar Change	Annual Percent Growth	4-Year Average Growth	Difference in Growth Rates	Abnormal Portion of Change	Amount of Abnormal Growth
1988	$685.6						
1989	$819.1	$133.5	19.47%				
1990	$790.8	-$28.3	-3.46%				
1991	$775.6	-$15.2	-1.92%				
1992	$728.3	-$47.3	-6.10%				
1993	$751.3	$23.0	3.16%	2.00%	1.16%	36.70%	$8.4
1994	$775.3	$24.0	3.19%	-2.08%	5.27%	100.00%	$24.0
1995	$783.4	$8.1	1.04%	-0.42%	1.46%	100.00%	$8.1
1996	$878.1	$94.7	12.09%	0.32%	11.76%	97.31%	$92.2
1997	$1,041.9	$163.8	18.65%	4.87%	13.78%	73.89%	$121.0
1998	$1,284.7	$242.8	23.30%	8.75%	14.56%	62.47%	$151.7
1999	$1,487.9	$203.2	15.82%	13.77%	2.04%	12.92%	$26.3
2000	$1,669.7	$181.8	12.22%	17.47%	-5.25%	0.00%	N/A
2001	$1,806.8	$137.1	8.21%	17.50%	-9.29%	0.00%	N/A
2002	$1,683.8	-$123.0	-6.81%	14.89%	-21.70%	0.00%	N/A
2003	$1,629.7	-$54.1	-3.21%	7.36%	-10.57%	0.00%	N/A
2004	$1,678.9	$49.2	3.02%	2.60%	0.42%	13.80%	$6.8

Examining this table for fiscal years 2002, 2003, and 2004, it can be seen that due to negative year-over-year growth in the nonwithholding portion of the individual income tax collected by the Commonwealth, no deposits to the nonrecurring expenditure fund are required for either fiscal years 2002 or 2003. In contrast, year-over-year growth in the nonwithholding portion of the individual income tax for fiscal year 2004 is positive, so a deposit must be made to the fund. To calculate the size of that deposit, the difference between that percentage year-over-year growth and the previous four years average growth rate is divided by the percentage year-over-year growth to determine what portion of this difference is attributable to "abnormal" conditions. This new abnormal rate is then multiplied by the difference between the dollars collected in fiscal years 2003 and 2004 to determine the amount of the deposit.

Table 2: Balances and Nonwithholding Revenues Eligible for Deposit into Nonrecurring Expenditure Fund ($ in Millions)			
Fiscal Year	**Unobligated, Undesignated General Fund Balance***	**Eligible Nonwithholding Portion of Income Tax**	**Total Deposit**
2004	$0.0	$6.8	$6.8
2003	$0.0	$0.0	0.0
2002	$0.0	$0.0	0.0
2001	$0.0	$0.0	$0.0
2000	$0.0	$0.0	$0.0
1999	$8.3	$26.3	$34.6
1998	$33.0	$151.7	$184.7
1997	$76.3	$121.0	$197.3
1996	$1.1	$92.2	$93.3
1995	$0.0	$8.1	$8.1
1994	$7.6	$24.0	$31.6
1993	$59.7	$8.4	$68.1
* Note: No balances are anticipated for fiscal years 2002, 2003, 2004.			

As can be seen in Table 2, the creation of a nonrecurring expenditure fund could have affected the general fund dollars available for appropriation in fiscal year 2004. Since no unobligated and undesignated general fund balance is anticipated for fiscal year 2004, the $6.8 million deposit into the new fund could only have come from appropriations made for operating and capital items.

In addition, the establishment of a six-year capital improvement plan could also affect the allocation of general fund revenues because that plan requires a Governor to allocate two percent of anticipated general fund revenues toward the construction of capital outlay projects. Although this two percent allocation is not in all circumstances supported by general fund dollars, a portion of that plan's expense must be supported by general fund dollars if the anticipated general fund revenues for a given fiscal year exceed the preceding fiscal year's anticipated general fund revenues by more than five percent. Moreover, if a given fiscal year's anticipated general fund revenues exceed the preceding fiscal year's anticipated general fund revenues by eight percent or more, then the entire two percent capital allocation must be supported by the general fund. Consequently, this proposal could result in reductions in the amount of general fund dollars provided to the Commonwealth's operating expenses. Table 3 shows the impact this proposal might have had upon expenditures in fiscal years 2001 and 2002. Table 4 shows how the introduction of a six-year capital improvement plan might affect the coming biennium.

Table 3: Impact of Capital Improvement Plan on Current Biennium					
Chapter 1073 Expenses	**FY 2001**	**Revenue Growth Over FY 2000**	**FY 2002**	**Revenue Growth Over FY 2001**	**Total**
General Fund Operating	$12,283,610,813		$12,391,495,024		$24,675,105,837
General Fund Capital	$208,218,334		$95,585,034		$303,803,368
General Fund Total	$11,359,507,135	5.35 %	$11,189,142,626	-1.5%	$22,548,649,761
Two percent of General Fund Total	$249,836,583		$249,741,601		$499,578,184
Amount Diverted from Operating	($83,300,043)		($95,585,034)		($178,885,077)
Debt Issued	$124,918,292		$249,741,601		$374,659,893

In the current biennium, the proposal appears to yield $178.9 million (general fund) which could have been reallocated to other purposes. However, this amount is misleading because in order to comply with the proposal's requirements, the Commonwealth had to incur approximately $374.7 million in debt. As a result, the total sum available for reallocation would be less than $178.9 million due to the need for interest and principle payments on that debt.

In Table 4, the impact of this legislation upon the coming biennium is examined.

Table 4: Impact of Capital Improvement Plan on Coming Biennium					
HB/SB 30 Expenses	**FY 2003**	**Revenue Growth Over FY 2002**	**FY 2004**	**Revenue Growth Over FY 2003**	**Total**
General Fund Operating	$12,203,518,024		$12,714,087,901		$24,917,605,925
General Fund Capital	$28,031,976		$29,031,976		$57,063,952
Anticipated General Fund Revenues	$11,429,881,063	2.15%	$12,048,963,520	5.42%	$23,478,844,583
Two percent of General Fund Total	$244,631,000		$254,862,398		$499,493,398
Amount Diverted from Operating	($28,031,976)		$98,399,223		$70,367,247
Debt Issued	$244,631,000		$127,431,199		$372,062,199

In contrast to the earlier example, approximately $98.4 million must be diverted in fiscal year 2004 from other operating items to finance the construction of capital projects included in the six-year improvement plan. In order to accommodate this required transfer, either reductions must be made to these operating items or alternative sources of funds found to support their current levels of expenditure.

Furthermore, there could be other impacts associated with this proposal. For example, because the proposal requires that a capital improvement plan be submitted before the Governor's introduced budget, the proposal could ultimately increase the need for operating appropriations. In many instances, the construction of a new state-owned building, or the renovation of an existing state-owned building, leads to additional operating expenses such as building operations and maintenance and additional programs and staff. In addition, because the proposal bases the size of the capital outlay improvement plan upon anticipated revenues rather than actual collections, there is a possibility that the Commonwealth could over-commit resources to capital outlay expenditures should it fail to collect those anticipated revenues. If this were to happen, many of these projects might have to be delayed or further reductions made to the Commonwealth's operating expenses.

Finally, amendments to this proposal provide additional instructions for the completion of the capital outlay projects included in the legislative debt authorization bills. These amendments limit the amount of debt the Commonwealth can incur to complete these capital outlay projects to essentially no more than $250 million each fiscal year. Although the language permits any unused portion of this annual $250 million limit to be used in subsequent fiscal years, the limitation could lead to the need to delay capital outlay projects that were otherwise ready for construction.

9. Specific agency or political subdivisions affected: This proposal would affect all state agencies, institutions, and political subdivisions currently receiving general fund dollars appropriated in Part 1 (Operating Expenses) of the Appropriation Act.

10. Technical amendment necessary: Yes. On lines 43, 44, 95, and 116, the term "general funds" is used. There is only one general fund. Consequently, "general funds" should be deleted, and some other term, such as "general fund dollars" or "general fund revenues."

11. Other comments: None.

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cc: Secretary of Finance