Department of Planning and Budget
2002 Fiscal Impact Statement

1. **Bill Number:** SB 584

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

2. **Patron:** Barry

3. **Committee:** Finance

4. **Title:** Virginia Investment Act of 2002

5. **Summary/Purpose:** This bill 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 percentage change in per capita personal income. Revenues in excess of the capped expenditure amount shall be deposited into the Virginia Investment Account and shall not be withdrawn from the Account until at least July 1 of the subsequent biennium except to defray the cost of an emergency. Money in the Account shall be appropriated only for (i) new transportation infrastructure construction, (ii) matching grants to localities for K through 12 public school construction and renovation projects, and (iii) non-recurring research and development grants relating to economic development activities, which may be conducted at public institutions of higher education. Matching grants to localities for K through 12 public school construction and renovation projects shall be based on the Commonwealth paying no more than one dollar for every three dollars generated by the locality. 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.

6. **Fiscal Impact Estimates are:** Preliminary

Department of Taxation (Administrative Costs)

Fiscal Year	***Dollars***	***Positions***	***Fund***
2000-02	N/A	N/A	N/A
2001-03	$695,870	9.00	GF
2002-04	$295,472	9.00	GF

Department of the Treasury (Administrative Costs)

Fiscal Year	***Dollars***	***Positions***	***Fund***
2000-02	N/A	N/A	N/A
2001-03	$0	0.00	GF
2002-04	$1,381,680	0.00	GF

7. Budget amendment necessary: Yes, Items 283 and 291.

8. Fiscal implications: If enacted, this bill would apply to the Amendments to the 2002 Budget Bill introduced in January 2003 for the 2002-04 biennium.

The bill limits the growth in spending in the Governor's proposed budget, and to the bill as reported by committees of the House and Senate, but 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 that vary according to population or inflation.

The bill would reduce the unreserved balance of general fund revenues available for appropriation.

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, 2002.

Administrative Impact

Section 2.2-517 requires that surplus revenues be rebated to individual Virginia taxpayers on a pro rata basis. For years during which a rebate would be paid, the Departments of Taxation and Treasury would incur significant administrative expenses.

Department of Taxation: There are costs associated with modifying the system to implement this legislation. The Department of Taxation is currently in the process of replacing its automated systems as part of a partnership with American Management Systems (AMS). As a result, the Department of Taxation will be maintaining two systems – the current STARS system and the new IRMS system – for a period of time as a contingency. The contract with AMS generally provides for the costs of implementing routine legislation. However, changes attributable to major legislation are not within the scope of the contract.

Because the scope of this legislation is significant, systems changes will not be paid through the AMS contract. The Department of Taxation would incur costs of $358,970 for systems changes on the existing system and the new IRMS system in fiscal year 2003 and costs of $3,572 for maintenance of the existing system in fiscal year 2004.

In addition, the Department of Taxation would incur administrative costs of $336,900 in fiscal year 2003 and $291,900 in fiscal year 2004 and thereafter. This would include nine additional full-time employees would be needed to answer telephone calls, process the returns, and correct errors, in order to accurately track and verify that the proper amount of excess revenue to be rebated.

Department of Treasury: For administrative expenses the Department of the Treasury 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 identified in paragraph 6a above were determined based on the following assumptions and calculations:

Item	Check Volume	Per Item Cost	Item Cost
Postage[1]	3,000,000	0.35200	$1,056,000
Check stock	3,000,000	0.07446	$223,380
Printer maintenance cost	3,000,000	0.00410	$12,300
Personnel costs	3,000,000	0.03000	$90,000
TOTAL COST		**0.44056**	**$1,381,680**

[1] Assumes proposed rate increase effective July 1, 2002

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

10. Technical amendment necessary: Yes. The word "revenues" as used on Page 1, line 51, 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.

11. Other comments: 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.

Date: 1/22/02 / djy
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