

Department of Planning and Budget 2005 Fiscal Impact Statement

1. Bill Number HB 1815

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

2. Patron Marshall, R.G.

3. Committee Appropriations

4. Title Insurance license tax revenue

5. Summary/Purpose:

The proposed legislation would require that one-half of all revenue from insurance license taxes be deposited into a newly created fund, the Commonwealth Transportation Expedition Fund (the Fund). Revenues in the Fund would be used to expedite high priority transportation projects whose construction phases were within two years or less of completion. In allocating moneys within the Fund, the Commonwealth Transportation Board would be required to assign priority to projects that would have the greatest impact on (i) reducing poor air quality, (ii) reducing traffic congestion, (iii) and aiding the safety of motorists or pedestrians.

The legislation also would repeal the tenth enactments of Chapters 1019 and 1044 of the Acts of Assembly of 2000.

6. Fiscal Impact: Preliminary. See Item 8.

7. Budget amendment necessary: Yes.

8. Fiscal implications:

The Code of Virginia imposes a license tax on all insurance companies doing business in Virginia. The amount of tax to be paid is equivalent to a specified percentage of the revenue received from premiums paid on policies in the state. Until recently, all of the revenue derived from the insurance license taxes was deposited into the general fund. The Virginia Transportation Act (VTA), Chapters 1019 and 1044, Acts of Assembly of 2000, provided that one-third of that revenue be deposited into the Priority Trust Fund (PTF). (It was estimated that the revenue from the tax on motor vehicle insurance premiums was equivalent to one-third of all the insurance license tax revenue.) The proposed legislation would repeal the VTA provisions and require that one-half of the revenue from the insurance license tax be deposited into the newly created Commonwealth Transportation Expedition Fund, rather than the Priority Transportation Fund.

The proposed legislation would have significant ramifications. First, the bill would divert revenue from the general fund to a special fund restricted to transportation uses. The second general effect would be to change how transportation revenues are allocated.

In projecting the fiscal effect of the proposed legislation, several assumptions have been made. Although the insurance license tax revenues were appropriated to VDOT for PTF projects, in accordance with the provisions of the VTA, in FY 2003, the first year those provisions were effective, that has been the only time they were so appropriated. There was no appropriation in FY 2004, nor is there any appropriation for FY 2005 and FY 2006 in the current Appropriation Act. Therefore, based on its past actions, it is assumed that it is General Assembly policy to override the VTA provision regarding the use of insurance license tax revenues for transportation, and that such policy would have continued in the future. In summary, it is assumed that, if this bill, or similar legislation, were not enacted, all the future revenue from the insurance license tax would have been retained in the general fund.

The following table shows the anticipated revenue from the insurance license tax as forecast by the Department of Taxation and compares the effect, on the general fund and transportation funding, of the proposed legislation (all amounts shown in millions):

Fiscal Year	License Tax Revenue Forecast*	Proposed GF Share (1/2)	Proposed Transportation Share (1/2)*	GF Difference
2006	\$413.7	\$206.85	\$206.85	(\$206.85)
2007	\$456.1	\$228.05	\$228.05	(\$228.05)
2008	\$507.4	\$253.7	\$253.7	(\$253.7)
2009	\$507.4	\$253.7	\$253.7	(\$253.7)
2010	\$507.4	\$253.7	\$253.7	(\$253.7)
2011	\$507.4	\$253.7	\$253.7	(\$253.7)

*It is assumed that all insurance license tax revenue would otherwise be retained in the general fund.

If this bill were enacted into law, anticipated general fund revenues for FY 2006 would be reduced by \$206.85 million. To make up for this loss in general fund revenue in the second year of the current biennium, the General Assembly could take one of two courses of action. If the legislature were to assume that the provisions of this bill were to be in addition to the provisions of the introduced budget bill, then it would need to reduce overall general fund appropriations for FY 2006 by a comparable \$206.85 million.

The second alternative would not involve a reduction of general fund appropriations. In his introduced bill, the Governor proposed a one-time appropriation of \$350 million in general fund dollars for transportation. The General Assembly could assume that the \$350 million general fund appropriation included the \$206.85 million from insurance license taxes that would be diverted from the general fund to the Fund under the provisions of this legislation. Under that assumption, transportation would still receive \$350 million from the general fund this biennium and FY 2006 general fund appropriations would not have to be

reduced. In effect, under this scenario, the one-time general fund appropriation would be \$143.15 million.

In future biennia, however, the proposed legislation would have a significant impact on the general fund budget. Because the \$350 million general fund appropriation for transportation purposes proposed for the current biennium is intended to be only a one-time appropriation, the allocation of one-half, rather than one-third, of the revenue from the insurance license tax for transportation purposes would have to be offset by comparable reductions in general fund appropriations. Already, preliminary conservative projections of general fund revenues and projected spending needs through FY 2010 indicate that revenues will barely meet those needs. For example, it is currently projected that FY 2007 revenue will fall almost \$200 million short of what will be needed. The diversion of general fund revenue to transportation purposes that would result from this bill would exacerbate the problem of balancing future general fund budgets. The projected general fund deficit balance in FY 2007 could be in excess of \$400 million.

In addition to providing additional funding for transportation purposes, the proposed legislation would have a significant impact on how transportation funds are allocated. Under current law, one-third of the revenue from the insurance license tax, if allocated as provided in the Virginia Transportation Act of 2000, would be placed in the Priority Transportation Fund. Furthermore, the provisions of the act require that revenues in that fund be used for a list of specified projects. The proposed bill, on the other hand, would require that that same revenue be placed in a different fund—the newly created Commonwealth Transportation Expedition Fund—and, as noted earlier, the revenue would then be allocated for high priority projects within two years of completion.

9. Specific agency or political subdivisions affected:

All general fund agencies
Department of Transportation

10. Technical amendment necessary: None.

11. Other comments:

Numerous bills have been introduced to alter the distribution of the insurance license tax revenue. See HB 1525, HB 2099, and HB 2771.

Date: 01/26/05 / rwh

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cc: Secretary of Finance
Secretary of Transportation