

Department of Planning and Budget 2005 Fiscal Impact Statement

1. Bill Number HB 2099

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron Hugo

3. Committee House Transportation

4. Title Insurance license tax and funding for transportation

5. Summary/Purpose:

The proposed legislation would require that all revenue from insurance license taxes be deposited into a newly created fund, the Commonwealth Transportation Investment Fund (the Fund). The Commonwealth Transportation Board would be authorized to issue revenue bonds, the principal and interest of which would be paid from revenue deposited in the Fund. The bonds could be issued only to the extent that the debt service on the bonds did not exceed one-third of the amount deposited in the Fund. The bonds would not be deemed to constitute a debt of the Commonwealth or a pledge of the full faith and credit of the Commonwealth.

Under the provisions of the proposed legislation, the proceeds of the bonds and the remaining money in the Fund would be allocated by the Commonwealth Transportation Board to each highway construction district on the basis of population for primary transportation projects.

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 Transportation 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 those VTA provisions and require that all of the revenue from the insurance license tax be deposited into the newly created Commonwealth Transportation Investment 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 Transportation share	GF Difference
2006	\$413.7	\$413.7	(\$413.7)
2007	\$456.1	\$456.1	(\$456.1)
2008	\$507.4	\$507.4	(\$507.4)
2009	\$507.4	\$507.4	(\$507.4)
2010	\$507.4	\$507.4	(\$507.4)
2011	\$507.4	\$507.4	(\$507.4)

*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 \$413.7 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 \$413.7 million.

The second alternative would involve a smaller 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 would come from the 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 \$413.7 million from what would have been general fund revenues this biennium and FY 2006 general fund appropriations would have to be reduced by only \$63.7 million (\$413.7 million minus \$350 million).

In future biennia, the proposed legislation would have a much greater 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 deposit into the Fund of all, rather than one-third, of the revenue from the insurance license tax 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 \$600 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 direct the deposit of same revenue in a different fund—the newly created Commonwealth Transportation Investment Fund—and, as noted earlier, the revenue would then be allocated among highway transportation districts by population.

Any debt issued under the bond authorization provided for in the proposed legislation will constitute tax-supported debt and have an impact on the Commonwealth's debt capacity.

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 1815, and HB 2771.

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cc: Secretary of Finance
Secretary of Transportation