REVISED
Department of Planning and Budget
2005 Fiscal Impact Statement

1. **Bill Number** HB 2771

   House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron** Callahan

3. **Committee** Transportation

4. **Title** Insurance license tax revenues

5. **Summary/Purpose:**

   The proposed legislation would require that one-third of all revenue from insurance license taxes be deposited into a newly created fund, the Commonwealth Transportation Investment Fund (the Fund). The bill would require the Commonwealth Transportation Board to allocate the revenue in the Fund to each highway construction district on the basis of population. The funds would be used for primary transportation projects and, in determining the projects to be funded from the Fund, the Board would consider traffic congestion, air quality improvement, and other mobility enhancements.

   The legislation also would repeal the third and 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:** See Item 8.

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 transferred 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 the VTA provisions relating to the use of the insurance license tax revenues, but would have the effect of codifying the VTA requirement that one-third of the revenue from the insurance license tax be dedicated for transportation purposes. However, the proposed legislation would require the revenue to 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 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 (2/3)**	**Proposed Transportation Share (1/3)**	**GF Difference**
2006	$413.7	$275.8	$137.9	($137.9)
2007	$456.1	$304.1	$152.0	($152.0)
2008	$507.4	$338.3	$169.1	($169.1)
2009	$507.4	$338.3	$169.1	($169.1)
2010	$507.4	$338.3	$169.1	($169.1)
2011	$507.4	$339.3	$169.1	($169.1)

If this bill were enacted into law, anticipated general fund revenues for FY 2006 would be reduced by $137.9 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 $137.9 million.

The second alternative would not involve a reduction of general fund appropriations. In the 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 for transportation included the $137.9 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 $212.1 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 loss by the general fund of the motor vehicle insurance premium tax revenue to transportation purposes would have to be offset by comparable reductions in general fund appropriations. Already, preliminary 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 the transportation 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 $390 million.

Finally, the proposed legislation would have an effect on how transportation revenues 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 Investment Fund—and, as noted earlier, the revenue would then be allocated among highway transportation districts by population.

In addition to enactment clause no. 10 of Chapters 1019 and 1044 of the Acts of Assembly of 2000, the proposed legislation would repeal enactment clause no. 3 of those chapters. These identical chapters constitute the Virginia Transportation Act and enactment clause no. 3 sets out the specific projects to be funded out of the Priority Transportation Fund. Along with any insurance license tax revenues that were deposited in the Priority Transportation Fund in accordance with enactment clause no. 10, VDOT has used the proceeds of Federal Highway Revenue Anticipation Notes (FRANs) to fund the projects on this list. The legal documents used in the issuance of FRANs do not list the specific projects, but refer to the project list in enactment clause no. 3 of the Virginia Transportation Act. According to VDOT officials, it is not clear what effect the repeal of this enactment clause would have on the future use of FRANs.

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 2099.

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cc: Secretary of Finance

Secretary of Transportation