

**DEPARTMENT OF TAXATION
2005 Fiscal Impact Statement**

1. **Patron** Frederick M. Quayle

3. **Committee** Senate Finance

4. **Title** Retail Sales and Use Tax: Dedicate
Revenue to the Water Quality
Improvement Restricted Use Fund

2. **Bill Number** SB 1235

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would create the Water Quality Improvement Restricted Use Fund, and would dedicate to it a portion of the revenue generated by the retail sales and use tax. The purpose of this fund would be to improve water quality by reducing levels of nitrogen and phosphorous pollution. The amount dedicated to this fund would equal 1/12 of the net revenues generated by the two-percent sales tax, not to exceed an annual amount of \$160 million. This bill would require that beginning on July 1, 2006, the Tax Commissioner is to certify the amount of sales tax revenues generated in a particular month by the 25th day of the month following the month in which the sales taxes were due. Three days after the certification the Comptroller will make the required transfer to the fund.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

7. **Budget amendment necessary:** No.

8. Fiscal implications:

The Department of Taxation would incur no administrative costs to implement this bill.

Although this bill specifies that the amount dedicated to the Water Quality Improvement Restricted Use Fund would be 1/12 of a two percent sales tax with a cap at \$160 million annually, based on historical data, 1/12 of two percent sales and use tax will exceed \$160 million. This bill would reduce not General Fund revenues but would instead reduce revenues available for appropriation for other purposes by \$160 million annually.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Environmental Quality
Department of Conservation and Recreation

10. Technical amendment necessary: Yes.

In order to clarify that the intent of this bill is not raise the sales and use tax rate, the following technical amendment is suggested:

Page 1, Line 19, after: from
Strike: the increase in

11. Other comments:

Sales and Use Tax Issues

This bill does not impose any additional sales and use tax. This bill would dedicate a portion of the retail sales and use tax revenue that is already being collected and used for General Fund purposes. The amount dedicated to this fund would equal 1/12 of the net revenues generated by the two-percent sales tax, not to exceed an annual amount of \$160 million. Based on estimated sales and use tax collections for FY 2007 and beyond, the amount dedicated would be \$160 million annually.

The 4% state portion of the retail sales and use tax is currently allocated in the following way:

- 2%- General Fund revenue that is used for general operating expenses. Of this amount, up to \$13 million is allocated annually to the Department of Game and Inland Fisheries (DGIF) Game Protection Fund;
- ½%- Attributed to the rate increase in 2004;
- 1%- Dedicated and returned to localities based on school aged populations;
- ½%- Dedicated and paid to the Transportation Trust Fund.

Under this bill 1/12 of the 2% General Fund revenue would be dedicated to the Water Quality Improvement Restricted Use Fund. The maximum amount that could be dedicated annually would be \$160 million.

Water Quality Improvement Restricted Use Fund

This bill creates the Water Quality Improvement Restricted Use Fund. The monies paid to this fund are to be used primarily for the purpose of reducing nitrogen and phosphorous pollution discharged into the waters of the Commonwealth from municipal sewage systems and agricultural lands. Additionally, monies paid into the fund may be used to ensure that the surface and ground waters of the Commonwealth do not contain pollution levels that would violate the federal Clean Water Act.

This bill would distribute the monies paid into the fund in the following manner to meet the above-mentioned objectives. Through December 31, 2010, 70% of the monies allocated to the fund will be administered by the Department of Environmental Quality through grants or distributions to the Virginia Resources Authority for the sole purpose of designing and installing state of the art nutrient removal technologies at municipal sewage systems. The Virginia Resources Authority may use the funds it receives to issue bonds

for the design and installation of these systems. Any such bonds issued may be considered tax-supported debt and would impact the Commonwealth's debt capacity.

The remaining 30% of the monies paid into the fund will be administered by the Department of Conservation and Recreation through distributions to the Virginia Agriculture Best Management Practices Cost-Share Program to be used for implementing the best management practices to reduce nitrogen and phosphorous pollution from agricultural lands. However, in no single year can these funds be used exclusively within or outside the Chesapeake Bay watershed.

Beginning January 1, 2011, the monies paid into the fund will be allocated fifty percent to the Department of Environmental Quality and fifty percent to the Department of Conservation and Recreation. At that time each department will also make it a priority to design and implement technologies to contribute to the removal of Category 5 impairments from waters having been designated as containing such pollutants.

This bill would create the Water Quality Improvement Restricted Use Fund Advisory Commission to review, comment, and advise the Department of Environmental Quality and the Department of Conservation and Recreation on the disbursement and use on any monies in the fund. Additionally, this commission would submit an annual report of its work to the General Assembly and the Governor. The membership of the advisory commission will consist of six legislative members and four citizen members

Similar Legislation

House Bill 2777 is identical to this bill.

House Bill 2743 and **Senate Bill 759** would dedicate a certain percentage of General Fund unrestricted revenues to the City of Hampton to fund recreational improvements for boating and fishing and to implement conservation initiatives.

cc : Secretary of Finance

Date: 1/29/2005 SM
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