

REVENUE

The FY 2013 budget passed by the Legislature did not include any major revenue initiatives; instead, the budget is balanced with cuts and savings, several small ongoing revenue initiatives and with approximately \$615.0 million in temporary revenues. The budget does not follow the Governor's proposal to include revenues from new taxes on tobacco products or from removing the sales tax exemptions for candy and soda. Without any major revenue initiatives, the budget is limited in its ability to support any major spending initiatives.

The most significant revenue initiative under contention during budget debate was how much money to withdraw from the state's Stabilization ("Rainy Day") Fund. The House had proposed a total of \$409.1 million and the Senate had proposed a total of \$302.5 million. The Legislature's budget includes a direct withdrawal of \$350.0 million, and the withdrawal of \$9.1 million in interest earned by the fund.

As shown in the chart below, the FY 2013 budget assumes \$89.1 million in new ongoing revenue (in other words, revenue that will continue beyond FY 2013), and \$615.0 million in temporary or one-time revenue. Details on these initiatives follow.

FY 2013 REVENUE INITIATIVES	FY 2013 House		FY 2013 Senate		FY 2013 Budget	
	Temporary	Ongoing	Temporary	Ongoing	Temporary	Ongoing
Tax Revenue						
Delay FAS 109 deductions	45,860,105		45,860,105		45,860,105	
Enhanced tax enforcement		22,300,000		36,300,000		36,300,000
Tax settlements				32,000,000		32,000,000
Departmental Revenues						
Abandoned property revenues			10,000,000	10,000,000	10,000,000	10,000,000
Various increased fees, etc.		10,800,000		10,800,000		10,800,000
Other Sources of Funds						
Stabilization ("Rainy Day") Fund withdrawal	400,000,000		290,000,000		350,000,000	
Stabilization ("Rainy Day") Fund interest transfer	9,100,000		12,500,000		9,100,000	
Proceeds from various trusts	37,000,000		6,000,000		6,000,000	
Use of Group Insurance trust surplus	40,000,000		40,000,000		40,000,000	
Use of Commonwealth Care trust surplus	29,000,000		44,000,000		44,000,000	
Forgone carry forward of consolidated net surplus	110,000,000		104,000,000		110,000,000	
Forgone deposit into State Retiree Benefits Trust Fund			27,670,000			
SUB-TOTALS	670,960,105	33,100,000	580,030,105	89,100,000	614,960,105	89,100,000
TOTAL REVENUE INITIATIVES	704,060,105		669,130,105		704,060,105	

Tax Revenue

The FY 2013 budget relies on the consensus revenue estimate of \$21.95 billion in tax revenue. The budget also counts on three additional tax-related initiatives totaling \$114.2 million. The FY 2013 budget includes tax revenues realized with the improvement of the Department of Revenue's enforcement abilities (including the use of more powerful data-review software), projecting \$36.3 million in revenue from these improvements. The expectation is that with improved tax auditing and enforcement, the Department of Revenue will be able to bring in additional revenue for the Commonwealth that is owed but that currently goes uncollected. This represents a new and ongoing revenue stream for the state.

The Legislature's FY 2013 budget proposal adopts Senate language in an outside section changing how the Commonwealth would treat revenues from tax settlements. In past years, all tax settlement revenues went to the General Fund. Starting in FY 2012, a law directed that the proceeds from tax settlements above \$10 million would be deposited into the Stabilization Fund (the "Rainy Day" fund). The FY 2013 budget proposal lowers this threshold, and directs that revenue from one-time tax settlements exceeding \$1 million be deposited in the Stabilization Fund. It also directs the Commonwealth to transfer up to \$30 million of these revenues back into the General Fund at the end of the fiscal year. Accordingly, based on this language the FY 2013 budget relies on \$30 million in revenue from tax settlements, as well as an additional \$2 million in retained revenues associated with the collection of these settlements.

Apart from the initiatives outlined above, the FY 2013 budget includes no other sources for new or enhanced tax revenues. To bring its budget into balance, the budget relies on other non-tax revenues.

Non-Tax Revenues

The FY 2013 Legislature's budget incorporates estimates of \$589.9 million in additional non-tax revenues. Of this total, \$569.1 million are temporary or one-time revenues, and \$20.8 million are ongoing revenues, providing revenue for this and presumably subsequent years. The temporary non-tax revenues come from agency revenue initiatives, from the Stabilization Fund, and from other specific transfers.

Agency Revenue Initiatives

The FY 2013 budget adopts a Senate proposal to direct the Commonwealth's revenue from unclaimed checks into the Abandoned Property fund, resulting in an estimated \$10.0 million in ongoing departmental revenue. The budget also transfers \$10.0 million from a separate off-budget trust into the Abandoned Property fund, a source of one-time revenue. All told, the FY 2013 budget relies on approximately \$20.0 million in new revenue from so-called abandoned property. The budget also includes a number of increases to the permitting and licensing fees charged by a various departments, changes that together would raise an estimated \$10.8 million in ongoing revenue annually. Approximately half (\$5 million) of the total would derive from selling advertising space on a limited number of state owned assets, such as vehicles.

Stabilization Fund

The FY 2013 budget withdraws funding from the state's Stabilization Fund, and proposes transferring into the General Fund anticipated interest earned by the Stabilization Fund. The budget transfers \$350.0 million from the fund, and anticipates transferring \$9.1 million in interest. The budget includes language specifying a required \$100.0 million deposit into the Stabilization Fund which is the estimated amount of FY 2013 capital gains revenues in excess of \$1 billion. Furthermore, the budget does not count on transferring approximately \$100 million in tax revenue from the year's consolidated net surplus into the Stabilization Fund, as there is language allowing for suspending for one year this statutory transfer.

Unused Balances

The FY 2013 budget relies on the use of \$6.0 million from balances in existing trust funds to pay for FY 2013 costs. This is the same amount estimated by the Senate, but lower than the House budget proposal which had estimated being able to "sweep" a total of \$37.0 million in unused funds from various trusts. The FY 2013 budget also counts on \$40.0 million in one-time money available from the federal Group Insurance Trust, and \$44.0 million available from a surplus in the Commonwealth Care Trust Fund.

Other One-time Savings

The Legislature's FY 2013 budget anticipates "saving" approximately \$110.0 million by forgoing a statutory "carry forward" from FY 2013 into FY 2014 from the consolidated net surplus. By not reserving these funds for the next year's budget, they become a one-time revenue source in the current year.

The FY 2013 budget does not rely on the \$27.7 million included in the Senate budget that would have come from suspending for FY 2013 the required transfer of funds from the Master Tobacco Settlement into the State Retiree Benefits Trust. In FY 2012, the Legislature passed a law stating that in FY 2013 10 percent of the proceeds of the tobacco settlement would be deposited into this trust to help fund benefits for retired state employees. Although there is language in the Legislature's FY 2013 budget allowing for the full amount of the tobacco settlement go to the General Fund rather than the State Retiree Benefits Trust, the budget does not count on "savings" from this, and Conference Committee staff suggests that the transfer to the retiree benefits trust is still expected to take place.