REVENUE FORECAST


The Commonwealth's total revenue consists of two types of resources: the general fund and nongeneral funds. About half of state revenues are "nongeneral funds," or funds earmarked by law for specific purposes. For example: motor vehicle sales and motor fuel taxes are earmarked by law for transportation programs; students' tuition and other fees support higher education, and federal grants are designated for specific activities.

General fund revenues are derived from general taxes paid by citizens and businesses in Virginia. Since general fund revenue is not dedicated to any particular purpose and can be used for a variety of government programs, these are the funds that the Governor and the General Assembly have the most discretion to spend.

General fund revenues can primarily be attributed to five major revenue sources. The two largest sources are the individual income tax and the sales and use tax. Other major revenue sources are corporate income taxes, wills, suits, deeds, and contract fees, and taxes on insurance company premiums. Miscellaneous taxes and other revenues also contribute to the general fund.

FY 2018 revenue collections exceeded the forecast

In FY 2018, total general fund revenues rose 6.3 percent to $19,880.8 million, with a surplus of $552.6 million – 2.9 percent variance from forecast. Surpluses in individual withholding and nonwithholding taxes drove the surplus.

Three major sources exceeded expectations: Payroll withholding finished the year $227.2 million above the estimate, a 1.8 percent variance; individual nonwithholding receipts were $325.6 million ahead of the forecast (10.3 percent variance); and refunds were $61.1 million lower than expected, contributing to the surplus. In total, net individual income tax receipts were $613.9 million above forecast. In addition, sales tax collections exceeded the forecast by $3.6 million (0.1) percent variance. The other major sources ended the year below expectations. Collections in corporate income tax were $12.1 million short of the estimate, a variance of -1.4 percent. Wills, suits and deeds, mainly recordation taxes, missed its forecast by $12.3 million, a -3.0 percent variance. Collections of taxes on insurance premiums were $24.2 million short of the forecast.

Collectively, the five major sources ended the year $568.9 million above the forecast (3.1 percent variance). Collections of miscellaneous taxes and other revenues were $718.5 million in FY 2018, missing the annual forecast by $16.3 million (-2.2 percent variance).

General fund revenue expected to show solid growth over the forecast horizon

The general fund revenue forecast for FY 2019 and FY 2020 continues to indicate above-trend growth along with additional revenues attributable to federal tax reform driving the stronger growth.

FY 2018 revenue collections exceeded the forecast

	Actual 2018	Forecast 2019	Forecast 2020
Corporate income	$861.9	$910.5	$1,043.5
Individual income	14,105.8	15,045.2	15,380.5
Insurance premiums	337.9	395.3	410.3
State sales & uses	3,461.8	3,591.1	3,731.1
Wills, suits, deeds & contract Fees	394.9	368.6	368.6
Miscellaneous	718.5	739.9	755.0
Total revenues	**$19,880.8**	**$21,050.6**	**$21,689.0**
ABC profits	$109.5	$112.9	$117.2
Sales Tax (0.25%)	376.6	390.0	409.3
Transfers per the Appropriations Act	142.2	119.2	103.8
Total transfers	**$628.3**	**$622.1**	**$630.3**
Total general fund	**$20,509.0**	**$21,672.7**	**$22,319.3**

*Dollars in millions. Excludes balances available for appropriation. Figures may not add due to rounding. Source: Virginia Department of Taxation

Tax Cuts and Jobs Act of 2018

In December 2017, sweeping federal tax legislation was enacted into law. Given that Virginia has been a conformity state, the Tax Cuts and Jobs Act (TCJA) is expected to have significant impacts on the Commonwealth's general fund revenue collections over the forecast horizon. In addition, the recent Wayfair internet sales tax court decision and other policy adjustments are impacting general fund revenue collections.

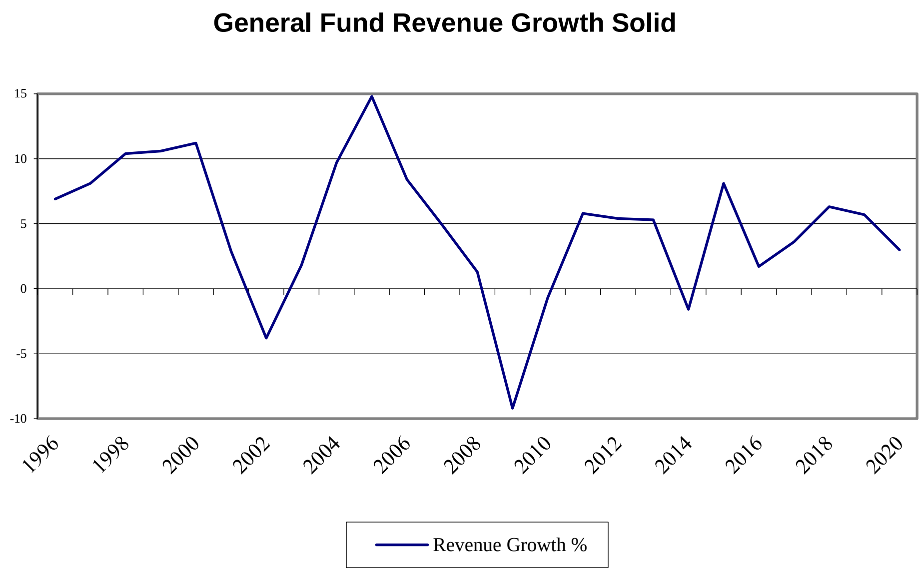
Forecast for the major general fund revenue sources

For each of the major categories of general fund revenue, the following describes the actual performance in FY 2018 and the estimate over the forecast horizon.

Individual income taxes

Most of the surplus in FY 2018 was attributable to individual income taxes. Collections of net individual income taxes (71 percent of total revenues) rose 8.1 percent in FY 2018, well above the annual forecast of 3.4 percent growth. Receipts of $14,105.8 million were $613.9 million ahead of the official estimate, a variance of 4.5 percent from the forecast. Nonwithholding and withholding taxes accounted for the surplus, and refunds were somewhat lower than forecast.

The outlook for net individual income taxes in FY 2019 has been revised upward from the official forecast by $861.4 million million for growth of 6.7 percent. Collections in this source are predicted to increase 2.2 percent in FY 2020.



Sales and use taxes

Collections of sales and use taxes (17 percent of total revenues) were $3,461.8 million in FY 2018, $3.6 million above the forecast. Collections rose 3.1 percent for the year, close to the forecast of 3.0 percent growth. The strength in collections followed two years in which growth was below 2.0 percent.

The sales tax revenue model is based on a direct relationship with total personal income in Virginia. The November standard forecast increases sales tax collections by $43.8 million in FY 2019 for growth of 3.7 percent, compared with 2.5 percent in the official forecast. Growth in this source is expected to be 3.9 percent in FY 2020.

Corporate income taxes

Corporate income tax collections (4 percent of total revenues), historically the most volatile revenue source, fell short of the forecast. Collections of $861.9 million were $12.1 million below expectations. The fiscal year growth of 4.2 percent trailed the forecast of 5.7 percent.

The corporate revenue model considers gross payments and refunds separately. Gross payments are modeled as a function of Virginia specific pre-tax corporate profits and the S&P 500 index.

The November standard forecast decreases corporate income tax collections by $1.5 million from the official forecast in FY 2019 for growth of 5.6 percent compared with the official rate of 5.8 percent. Collections are expected to increase by 14.6 percent in FY 2020.

Insurance company premiums taxes

Another major source to see a shortfall, collections of taxes on the premiums of insurance companies (2 percent of total revenues) were $337.9 million in FY 2018 – $24.2 million below the annual estimate.

The decline of 0.9 percent trailed the annual estimate of 6.2 percent growth. Prior year historic rehab tax credits resulted in over $20 million in refunds in this source.

In the November standard forecast, insurance premiums growth is raised from 11.4 percent to 17.0 percent in FY 2019. The model calls for growth of 3.8 percent in FY 2020.

Wills, suits, deeds & contract fees

Wills, Suits, Deeds, and Contract Fees (2 percent of total revenues), of which the primary component is the recordation tax, fell short of the forecast in FY 2018. Collections in this source were $12.3 million less than expected, a variance of -3.0 percent. Collections finished the year at $394.9 million, a slight 0.1 percent increase from FY 2017 and well below the official forecast of 3.3 percent growth.

The revenue model for wills, suits, deeds and contracts is based on mortgage originations, mortgage refinancing and home prices in Virginia, along with the yield on 30-year treasury bonds. The outlook for recordation taxes drives the other components of this source. The November standard forecast for this source is a 6.7 percent decline in FY 2019, a downward revision of $38.6 million. The estimate assumes collections will be flat through FY 2022.

Transportation Fund

State transportation revenue comes from several sources including the motor vehicle fuels tax, the motor vehicle sales and use tax, road taxes, vehicle license fees, state sales tax, interest earnings, and other miscellaneous taxes and fees. Money in this fund is used to support highway construction and maintenance and operating costs. Federal, local, and toll revenues are also used to finance transportation programs.

FY 2018 total transportation revenues totaled over $3.4 billion, an increase of $4.9 million over last year. Revenue collections grew by 0.1 percent, trailing the official forecast of 0.5 percent growth, resulting in a forecast variance of 0.4 percent.

For FY 2019 and FY 2020, total fund revenues from state sources are expected to be around $3.5 billion in FY 2019 and FY 2020.

Around 61 percent of state revenue is nongeneral fund

Although most public attention is focused on general fund revenue, over one-half of all revenue in the state budget consists of nongeneral funds that are earmarked by law for specific purposes.

Nongeneral fund revenue collections increased by 5.8 percent in 2018, and are expected to increase by 31.6 percent in 2019, and 11.5 percent in 2020. Nongeneral funds are around 61 percent of total state revenue during the 2018-2020 biennium.

Federal grants and other contracts

Federal grants and other contracts are the largest single source of nongeneral fund revenue, about 39 percent of the total. Frequently these grants do not come to the state as simple cash transfers. The federal government mandates many program requirements as conditions of the grants, and often states must provide matching funds. The Medicaid program for indigent health care is an example of a federal entitlement program that requires a state contribution.

In 2018, federal grants and other contracts decreased to $9.8 billion. This source is projected to increase by 20.9 percent in 2019 and increase by 21.9 percent in 2020, resulting in projection of $11.8 billion in 2019 and $14.4 billion in 2020.

Institutional revenue

The second largest class of nongeneral fund revenue is institutional revenue. The principle sources of this revenue are patient fees at teaching hospitals and mental health institutions as well as tuition and fees paid by students at institutions of higher education. Institutional revenue collections are expected to be $8.6 billion in FY 2019 and $9.0 in FY 2020.

Master Tobacco Settlement Agreement Funds

The Master Settlement Agreement (MSA) was signed between the major participating cigarette manufacturers and 45 states, the District of Columbia, and five United States' territories on November 23, 1998. The settlement agreement releases participating manufacturers from past, present, and future smoking-related claims of the states in return for an annual cash payment to the states in perpetuity. These payments are to be adjusted over time for several factors, including inflation and changes in volume of domestic cigarette shipments.

The Commonwealth's plan for the use of MSA funds has three elements. First, legislation passed by the 1999 General Assembly (Chapter 880, 1999 Acts of Assembly) earmarked 60 percent of the allocation in two separate trust funds. The Tobacco Indemnification and Community Revitalization Fund receives 50 percent of the MSA allocation. This share is used to compensate tobacco growers and tobacco quota holders for the economic loss resulting from quota loss or elimination and to promote economic growth and development in tobacco-dependent communities in the Southside and Southwest regions of the state. Recently, the annual amount received by this Fund was securitized and turned into an endowment. Thus, the Fund now receives earnings on this endowment. The Virginia Tobacco Settlement Fund receives the next 8.5 percent of the MSA allocation for the purposes of preventing tobacco use by minors and reducing childhood obesity. Programs targeted at minors include but are not limited educational and awareness programs. The final portion of the allocation (41.5 percent) goes to the Virginia Health Care Fund. This Fund can be used to pay for various health care costs faced by the Commonwealth, including the Medicaid program for indigent health care.

For 2019 and 2020, it is anticipated that the Tobacco Indemnification and Community Revitalization Fund may expend up to 10.0 percent of the endowment, an amount estimated at $58.2 million each year. The Foundation for Healthy Youth is anticipated to take in $9.3 million in 2019 and 2020.The Virginia Health Care Fund will receive $58.7 million in FY 2019 and $58.1 million in FY 2020.

Nongeneral fund forecast for the 2018-2020 biennium*

	Actual FY 2018	Forecast FY 2019	Forecast FY 2020
Motor vehicle fuel tax	$897.7	$948.3	$960.2
Unemployment compensation payroll tax	$434.6	$358.0	$354.8
Special highway tax from sales tax	$724.9	$776.4	$793.5
Motor vehicle sales tax and use tax	$943.7	$916.1	$921.3
Other taxes	$1,518.7	$1,548.2	$1,590.6
Rights and privileges	$1,707.9	$1,177.9	$1,207.1
Sale of property and commodities	$1,717.9	$1,823.0	$1,862.9
Assessment & receipts for special Services	$759.6	$1,188.9	$1,645.6
Institutional revenue**	$3,027.1	$8,612.4	$9,023.8
Interest dividends and rents	$263.6	$189.4	$201.6
Federal grants and contracts	$9,748.8	$11,784.6	$14,371.0
Master Tobacco Settlement Agreement Funds	$70.2	$126.2	$125.7
Other Revenue	$2,448.0	$2,469.6	$2,516.6
Total	**$24,262.4**	**$31,918.9**	**$35,574.6**

Source: Department of Planning and Budget, based on data submitted by agencies.

*Based on December 2018 forecast. Dollars in millions. Figures may not add due to rounding. Total excludes balances and bond proceeds available for appropriation, as well as Literary Fund transactions, and internal service funds.

**Per the Management Agreement between the tier 3 schools and the Commonwealth as set forth in Chapters 933 and 943 of the 2006 Acts of Assembly, the tier 3 schools are not required to report actual revenue collections in the Cardinal financial system. However, these institutions participate in the nongeneral fund revenue estimation process.