

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 2019 revenue collections exceeded the forecast

In FY 2019, total general fund revenues rose 7.2 percent to \$21,307.5 million, with a surplus of \$778.8 million – a 3.8 percent variance from forecast. Collections of individual nonwithholding taxes and lower than expected refunds drove the surplus, while most other major revenue sources came in below their respective forecasts.

Individual nonwithholding receipts were \$557.6 million ahead of the forecast (16.3 percent variance); and refunds were \$273.3 million lower than expected, contributing to the surplus. Payroll withholding fell 26.1 million short of the forecast (-0.2 percent variance). In total, net individual income tax receipts were \$804.9 million above forecast. In addition, recordation tax collections exceeded the forecast by \$17.9 million (4.8 percent variance). Collections in corporate income taxes were \$68.8 million short of the estimate, a variance of -6.8 percent. Sales tax receipts missed its forecast by \$10.7 million, a -0.3 percent variance. Collections of taxes on insurance premiums were \$13.3 million short of the forecast, a -3.4 percent variance.

Collections of miscellaneous taxes and other revenues were \$788.8 million in FY 2019, exceeding the annual forecast by \$48.9 million (6.6 percent variance).

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

The General Fund Forecast for FY 2020 through FY 2022				
	Actual 2019	Forecast 2020	Forecast 2021	Forecast 2022
Corporate income	\$943.4	\$964.5	\$1,019.2	\$1,132.6
Individual income	15,226.5	15,284.9	16,164.2	16,840.4
Insurance premiums	382.0	409.1	420.1	437.1
State sales & uses	3,580.4	3,794.5	3,893.0	3,955.6
Wills, suits, deeds & contract Fees	386.5	437.6	388.1	357.0
Miscellaneous	788.8	813.9	804.5	806.7
Total revenues	\$21,307	\$21,704.5	\$22,689.1	\$23,529.4
ABC profits	\$130.7	\$121.6	\$121.8	\$125.2
Sales Tax (0.25%)	392.6	416.1	426.9	433.7
Transfers per the Appropriations Act	134.7	129.0	103.9	103.9
Total transfers	\$658.0	\$666.7	\$652.6	\$662.8
Total general fund	\$21,965.5	\$22,371.2	\$23,341.7	\$24,192.2

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

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 2019 and the estimate over the forecast horizon.

Individual income taxes

Most of the surplus in FY 2019 was attributable to individual income taxes. Collections of net individual income taxes (71 percent of total revenues) rose 7.9 percent in FY 2019, well above the annual forecast of 2.2 percent growth. Receipts of \$15,226.5 million were \$804.9 million ahead of the official estimate, a variance of 5.6 percent from the forecast. Nonwithholding receipts accounted for bulk of the surplus, and refunds were somewhat lower than forecast, thus having a positive effect on growth, while payroll withholding taxes were \$26.1 million less than forecast.

The outlook for net individual income taxes in FY 2020 has been revised upward from the official forecast by \$22.4 million for an annual increase of 0.4 percent. Collections in this source are predicted to increase 5.8 percent in FY 2021 and 4.2 percent in FY 2022.

Sales and use taxes

Collections of sales and use taxes (17 percent of total revenues) were \$3,580.4 million in FY 2019, \$10.7 million below the forecast. Collections rose 3.4 percent for the year, close to the forecast of 3.7 percent growth.

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 \$65.0 million in FY 2020 for growth of 6.0 percent, compared with 4.2 percent in the official forecast. Most of the increase is Wayfair-related collections

of use taxes on internet sales. Growth in this source is expected to be 2.6 percent in FY 2021 and 1.6 percent in FY 2022.

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 \$943.4 million were \$68.8 million below expectations. The FY growth of 9.5 percent trailed the forecast of 17.4 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 \$66.3 million from the official forecast in FY 2020, an increase of 2.2 percent compared with the official rate of a 9.3 percent increase. Collections are expected to rise by 5.7 percent in FY 2021 and 11.1 percent in FY 2022.

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 \$382.0 million in FY 2019 – \$13.3 million below the annual estimate. The increase of 13.0 percent trailed the annual estimate of 17.0 percent growth.

In the November standard forecast, insurance premiums growth is lowered from 7.4 percent to 7.1 percent in fiscal year 2020. The model calls for growth of 2.7 percent in fiscal year 2021 and 4.0 percent in FY 2022.

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, exceeded the forecast in FY 2019. Collections in this source were \$17.9 million more than expected, a variance of 4.8 percent. Collections finished the year at \$386.5 million, a decline of 2.1 percent from FY 2018 but well above the official forecast of a 6.7 percent decrease.

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 13.2 percent increase in fiscal year 2020, an upward revision of \$69.0 million. The estimate assumes collections will decline 11.3 percent in FY 2021 and 8.0 percent in FY 2022.

Around 63 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 6.3 percent in 2019, and are expected to increase by 42.6 percent in 2020, 6.3 percent in 2021, and 2.1 percent in 2022. Nongeneral funds are around 63 percent of total state revenue during the 2020-2022 biennium.

Federal grants and other contracts

Federal grants are the largest single source of nongeneral fund revenue, about 41.6 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 2019, federal grants and other contracts increased to \$10.7 billion. This source is projected to increase by 30.0 percent in 2020, 7.8 percent in 2021, and 3.5 percent in 2022, resulting in projections of \$14.0 billion in 2020, \$15.0 billion in 2021, and \$15.6 billion in 2022.

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 \$8.7 billion in FY 2020, \$9.1 in FY 2021 and \$9.5 billion in 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.

Fiscal year 2019 total transportation revenues totaled over \$3.6 billion, an increase of \$98.2 million over last year. Revenue collections grew by 2.8 percent, ahead of the official forecast of 1.2 percent growth, resulting in a forecast variance of 1.6 percent.

The November forecast shows an increase of \$96.5 million, \$107.4 million, and \$110.8 million in fiscal years 2020 through 2022, respectively from the official forecast.

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. The Tobacco Indemnification and Community Revitalization Fund's MSA allocation is used to stimulate economic growth and development in tobacco-dependent communities throughout the Southside and Southwest regions of the Commonwealth. The Virginia Foundation for Healthy Youth receives the next 10 percent of the MSA allocation for the purposes of preventing youth tobacco use, substance use and childhood obesity. Programs targeted at minors include but are not limited educational and awareness programs. The final portion of the allocation (40 percent) goes to

the Virginia Health Care Fund. This Fund must be used as State matching dollars for Virginia's Medicaid program.

For 2020, 2021, and 2022, 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 \$44.0 million each year. The Foundation for Healthy Youth is anticipated to take in \$9.3 million in 2020 and \$11.1 million yearly in 2021 and 2022. The Virginia Health Care Fund will receive \$56.0 million in 2020, \$46.3 million in 2021, and \$45.8 million in 2022.

Nongeneral fund forecast for the 2020-2022 biennium*

	Actual FY 2019	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022
Motor vehicle fuel tax	\$896.2	\$965.9	\$1,027.2	\$1,128.2
Unemployment compensation payroll tax	\$376.3	\$367.6	\$388.7	\$387.3
Special highway tax from sales tax	\$759.1	\$809.3	\$829.9	\$836.5
Motor vehicle sales tax and use tax	\$978.4	\$988.8	\$995.6	\$1,019.2
Other taxes	\$1,887.1	\$2,255.2	\$2,430.7	\$2,467.7
Rights and privileges	\$1,265.7	\$1,424.3	\$1,397.5	\$1,409.5
Sale of property and commodities	\$1,785.2	\$1,834.4	\$1,872.8	\$1,927.8
Assessment & receipts for special Services	\$1,253.3	\$1,750.0	\$1,922.9	\$2,006.3
Institutional revenue**	\$3,015.9	\$8,737.0	\$9,139.6	\$9,486.9
Interest dividends and rents	\$312.7	\$226.3	\$227.0	\$224.2
Federal grants and contracts	\$10,734.4	\$13,951.9	\$15,039.2	\$15,572.0
Master Tobacco Settlement Agreement Funds	\$68.0	\$109.3	\$99.6	\$99.1
Other Revenue	\$2,467.3	\$3,362.8	\$3,738.6	\$3,359.5
Total	\$25,799.5	\$36,782.6	\$39,109.2	\$39,924.1

*Based on December 2019 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.

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

**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.