

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 2020 revenue collections slowed by COVID-19

In FY 2020, total general fund revenues rose 2.0 percent, with a shortfall of \$234.2 million – a 1.1 percent variance from the forecast. Most major revenue sources finished the year below their respective forecasts with individual withholding and sales taxes largely responsible for the shortfall. Individual nonwithholding met the forecast, while individual refunds were lower than expected, offsetting some of the deficit. Collectively, the five major sources ended the year \$243.9 million short of the forecast (1.2 percent variance). Collections of miscellaneous taxes and other revenues exceeded the forecast by \$9.7 million (1.2 percent variance).

The general fund forecast for FY 2021 and FY 2022

	Actual 2020	Forecast 2021	Forecast 2022
Corporate income	\$1,011.7	\$1,212.7	\$1,289.6
Individual income	15,351.6	15,512.7	16,101.3
Insurance premiums	360.6	333.9	360.8
State sales & uses	3,706.8	3,609.4	3,705.7
Wills, suits, deeds & contract Fees	483.5	549.3	467.0
Miscellaneous	823.6	790.6	805.0
Total revenues	\$21,737.8	\$22,008.6	\$22,729.4
ABC profits	\$137.5	\$139.5	\$132.7
Sales Tax (0.25%)	406.0	394.4	405.1
Transfers per the Appropriations Act	160.4	105.4	103.7
Total transfers	\$703.9	\$639.3	\$641.5
Total general fund	\$22,441.7	\$22,647.9	\$23,370.9

*Dollars in millions. Excludes balances available for appropriation. Figures may not add due to rounding.

Source: Virginia Department of Taxation

Performance of the major general fund revenue sources

For each of the major categories of general fund revenue, the following describes the actual performance in FY 2020.

Individual Income Taxes

Withholding: In FY 2020, withholding receipts (62 percent of total revenues) increased 3.0 percent, trailing the forecast growth rate of 4.7 percent and \$213.8 million short of the forecast.

Nonwithholding: Collections of individual nonwithholding (17 percent of total revenues) fell 4.3 percent in FY 2020, matching the forecast. These payments are historically tied to non-wage income sources – mainly the financial markets – and are extremely volatile. The annual estimate included reducing the forecasted collections by \$216.8 million for the nonwithholding collar. The nonwithholding collar is the 10-year average of nonwithholding payments as a percent of total revenues (16.5 percent), limited to one percent of general fund revenues.

Refunds: Individual income tax refunds were \$145.7 million less than expected in FY 2020. The amount of refunds issued rose 5.3 percent over last year, compared with the forecast of 13.7 percent growth. During the FY 2020 filing season, which began in February, the Department of Taxation issued 2.5 million refunds, about 90,000 more than last year.

Sales Taxes

Collections of sales and use taxes (18 percent of total revenues) were \$137.7 million below the forecast. Collections rose 3.5 percent for the year, trailing the forecast of 7.4 percent growth. Retail sales collections fell 4.5 percent and use tax collections increased 32.3 percent. Ninety percent of the increase in use tax collections were from new Wayfair related dealers.

Corporate Income Taxes

Corporate income tax collections (five percent of total revenues), historically the most volatile revenue source, also fell short of the forecast. Collections were \$19.9 million below expectations in FY 2020. The fiscal year growth of 7.2 percent trailed the forecast of 9.3 percent.

Wills, Suits, Deeds, and 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 2020 with a surplus of \$14.9 million. Collections finished the year with growth of 25.1 percent from FY 2019 compared with the official forecast of a 21.3 percent increase.

Insurance Premiums Taxes

Another major source to see a shortfall, collections of taxes on the premiums of insurance companies (2 percent of total revenues) were \$33.5 million below the annual estimate. Collections declined 5.6 percent for the year compared with the forecast of 3.2 percent growth.

Sluggish growth expected in General Fund revenue collections over the forecast horizon

In the December forecast, total general fund revenues, including transfers, have been raised by \$684.4 million in FY 2021. The increase from the interim forecast comes mainly from upward revisions to corporate income, nonwithholding, wills suits and deeds, and sales and use taxes. The total General Fund is now expected to increase 0.9 percent in FY 2021 and 3.2 percent in FY 2022. Over the FY 2021-2022 biennium, the general fund is revised upward close to \$1.3 billion.

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.

Total transportation revenues totaled over \$3.6 billion, an increase of \$50.2 million over last year. Revenue collections grew by 1.4 percent, lagging the official forecast of 4.8 percent growth, resulting in a forecast variance of 3.3 percent.

The November forecast shows an increase of \$193.7 million and \$75.9 million in FY 2021 and FY 2022, respectively

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 9.7 percent in 2020, and are expected to increase by 39.2 percent in 2021, and 9.7 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 and other contracts are the largest single source of nongeneral fund revenue, about 57 percent of the total. During 2020, the CARES Act created a large influx of one-time federal funding. Frequently 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 2020, federal grants and other contracts increased to \$20.4 billion. This source is projected to decrease by 19.5 percent in 2021 and increase by .1 percent in 2022, resulting in projected forecast of \$16.4 billion in 2021 and \$16.5 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 \$8.6 billion in 2021 and \$8.9 in 2022.

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 restricting tobacco use by minors, reducing childhood obesity, and preventing substance use by youth. 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. Appropriation Act language requires that this Fund only be used to cover the state share of Medicaid costs.

For 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 \$43.0 million each year. The Foundation for Healthy Youth is anticipated to take in \$9.3 million in 2021 and 2022. The Virginia Health Care Fund is estimated to receive \$48.0 million in 2021 and \$47.5 million in 2022.

Nongeneral fund forecast for the 2020-2022 biennium*

	Actual FY 2020	Forecast FY 2021	Forecast FY 2022
Motor vehicle fuel tax	\$1,129.8	\$1,688.7	\$1,994.1
Unemployment compensation payroll tax	\$337.0	\$1,150.4	\$745.3
Special highway tax from sales tax	\$786.1	\$1,112.2	\$1,171.0
Motor vehicle sales tax and use tax	\$954.3	\$942.4	\$899.6
Other taxes	\$1,752.8	\$1,423.5	\$1,553.3
Rights and privileges	\$1,299.5	\$1,258.8	\$1,282.8
Sale of property and commodities	\$1,866.3	\$2,071.5	\$2,161.9
Assessment & receipts for special Services	\$1,635.7	\$2,078.7	\$2,255.7
Institutional revenue**	\$2,828.4	\$8,561.4	\$8,832.6
Interest dividends and rents	\$279.4	\$233.6	\$241.5
Federal grants and contracts	\$20,425.8	\$16,439.4	\$16,459.0
Master Tobacco Settlement Agreement Funds	\$65.2	\$100.3	\$99.8
Other Revenue	\$2,542.2	\$2,314.1	\$2,458.8
Total	\$35,902.7	\$39,375.0	\$40,155.4

*Based on December 2020 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.