

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 2021 revenue collections show significant improvement

In FY 2021, total general fund revenues rose 14.4 percent, with a surplus of \$2,557.7 million – an 11.5 percent variance from the forecast. All major revenue sources finished the year above their respective forecasts with individual nonwithholding taxes responsible for about half of the surplus. In addition, individual refunds were lower than expected. Collectively, the five major sources ended the year \$2.498.1 million ahead of the forecast (11.6 percent variance). Collections of miscellaneous taxes and other revenues exceeded the forecast by \$59.9 million (7.5 percent variance).

The General Fund Forecast for FY 2022 through FY 2024				
	Actual 2021	Forecast 2022	Forecast 2023	Forecast 2024
Corporate income	\$1,515.7	\$1,721.5	\$1,737.0	\$1,784.9
Individual income	17,303.7	17,919.7	17,862.4	19,886.8
Insurance premiums	363.1	394.3	406.1	425.3
State sales & uses	4,166.2	4,427.8	4,299.0	4,478.7
Wills, suits, deeds & contract Fees	679.7	593.7	593.7	593.7
Miscellaneous	850.1	874.7	888.5	908.0
Total revenues	\$24,878.5	\$25,931.7	\$25,786.7	\$28,077.4
ABC profits	\$177.9	\$161.4	\$120.9	\$123.8
Sales Tax (0.25%)	458.4	487.3	507.3	522.0
Transfers per the Appropriations Act	122.3	99.9	98.2	98.2
Total transfers	\$758.6	\$748.6	\$726.4	\$744.0
Total general fund	\$25,637.1	\$26,680.3	\$26,513.1	\$28,821.4

*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 2021.

Individual Income Taxes

Withholding: In FY 2021, withholding receipts (62 percent of total revenues) increased 4.7 percent, exceeding the forecast growth rate of 2.7 percent and \$273.3 million above the forecast.

Nonwithholding: Collections of individual nonwithholding (18 percent of total revenues) rose 37.1 percent in FY 2021, exceeding the forecast of 4.4 percent growth and contributing \$1,245.0 million to the surplus. 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 \$264.0 million for the nonwithholding collar. The nonwithholding collar is the 10-year average of nonwithholding payments as a percent of total revenues (17.2%), limited to 1 percent of general fund revenues.

Refunds: Individual income tax refunds were \$339.4 million less than expected in FY 2021. The amount of refunds issued rose 5.2 percent over last year, compared with the forecast of 23.7 percent growth. During the fiscal year 2021 filing season, which began in February, the Department of Taxation issued 2.3 million refunds, the same number as the previous year, while the average check size grew about 2.0 percent.

Sales Taxes

Collections of sales and use taxes (17 percent of total revenues) were \$286.9 million above the forecast. Collections rose 12.4 percent for the year, ahead of the forecast of 4.7 percent growth.

Corporate Income Taxes

Corporate income tax collections (6 percent of total revenues), historically the most volatile revenue source, also exceeded the forecast. Collections were \$227 million above expectations in FY 2021, with growth of 49.8 percent compared with the forecast of 27.4 percent.

Wills, Suits, Deeds, and Contract Fees

Wills, Suits, Deeds, and Contract Fees (3 percent of total revenues), of which the primary component is the recordation tax, exceeded the forecast in FY 2021 with a surplus of \$78.4 million. Collections finished the year with growth of 40.6 percent from FY 2020 compared with the official forecast of a 24.4 percent increase.

Insurance Premiums Taxes

Another major source to see a surplus, collections of taxes on the premiums of insurance companies (1 percent of total revenues) were \$48.2 million above the annual estimate. Collections grew 0.7 percent for the year compared with the forecast of a 12.7 percent decline.

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

In the December forecast, total general fund revenues have been raised by \$3,032.6 million in FY 2022. The increase from the official forecast comes mainly from upward revisions to corporate income, sales, withholding, and nonwithholding taxes. Revenues are now expected to increase 4.2 percent in FY 2022, fall by 0.6 percent in FY 2023, and grow by 8.9 percent in FY 2024.

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 \$4.1 billion, an increase of \$528.1 million over last year. Revenue collections grew by 14.6 percent, far outpacing the official forecast of 4.3 percent growth, resulting in a forecast variance of 9.9 percent.

The December forecast shows an increase of \$542.3 million, \$514.0 million, and \$411.7 million in fiscal years 2022 through 2024, 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 30.3 percent in 2021, and are expected to increase by 13.2 percent in 2022, decrease by 15.9 percent in 2023, and increase by 1.9 percent in 2024. 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 61.7 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 2021, federal grants and other contracts increased to \$28.9 billion. This source is projected to decrease by 6.5 percent in 2022, 28.5 percent in 2023, and 1.1 percent in 2024, resulting in projections of \$27.0 billion in 2022, \$19.3 billion in 2023, and \$19.1 billion in 2024. These changes are primarily caused by one-time federal funding related to federal Pandemic Relief.

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 \$8.8 billion in FY 2022, \$9.1 in FY 2023 and \$9.4 billion in FY 2024.

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 8.5 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 (41.5 percent) goes to the Virginia Health Care Fund. This Fund must be used as State matching dollars for Virginia's Medicaid program.

For 2022, 2023, and 2024, 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 \$38.0 million in FY 2022 and FY 2023, and \$39.0 million in FY 2024. The Foundation for Healthy Youth is anticipated to take in \$9.7 million each year. The Virginia Health Care Fund will receive \$47.5 million each year.

Nongeneral fund forecast for the 2022-2024 biennium*

	Actual FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024
Motor vehicle fuel tax	\$1,000.1	\$1,315.4	\$1,393.7	\$1,413.7
Unemployment compensation payroll tax	\$351.1	\$1,406.5	\$513.2	\$435.9
Special highway tax from sales tax	\$1,264.1	\$1,346.6	\$1,401.8	\$1,442.2
Motor vehicle sales tax and use tax	\$1,116.6	\$1,174.0	\$1,155.1	\$1,119.4
Other taxes	\$2,211.9	\$2,280.9	\$2,358.8	\$2,398.0
Rights and privileges	\$1,305.9	\$1,378.8	\$1,442.2	\$1,463.6
Sale of property and commodities	\$2,308.5	\$2,623.1	\$2,593.2	\$2,628.0
Assessment & receipts for special Services	\$2,030.9	\$2,262.1	\$2,298.8	\$2,383.8
Institutional revenue**	\$2,633.3	\$8,783.5	\$9,089.0	\$9,419.0
Interest dividends and rents	\$371.1	\$252.8	\$264.2	\$272.9
Federal grants and contracts	\$28,883.2	\$27,004.4	\$19,294.9	\$19,091.4
Master Tobacco Settlement Agreement Funds	\$113.0	\$95.2	\$95.2	\$96.2
Other Revenue	\$3,205.8	\$3,035.9	\$2,657.1	\$3,217.5
Total	\$46,795.4	\$52,959.2	\$44,557.1	\$45,381.6

*Based on December 2021 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.