

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 2022 revenue collections showed strong growth

In FY 2022, total General Fund revenues rose 16.3 percent, with a surplus of \$1.95 billion (7.2 percent variance from the official revenue forecast). All major revenue sources, except corporate, finished the year above their respective forecasts with individual nonwithholding taxes responsible for much of the surplus. In addition, individual refunds were lower than expected. Collections of miscellaneous taxes and other revenues exceeded the official revenue forecast by \$19.0 million (2.1 percent variance).

The general fund forecast for FY 2023 and FY 2024

	Actual 2022	Forecast 2023	Forecast 2024
<i>Corporate income</i>	\$1,978.7	\$1,809.1	\$1,461.0
<i>Individual income</i>	20,410.2	17,631.7	18,726.8
<i>Insurance premiums</i>	426.8	425.0	403.8
<i>State sales & uses</i>	4,558.1	4,926.3	4,876.5
<i>Wills, suits, deeds & contract Fees</i>	654.1	514.0	436.9
<i>Miscellaneous</i>	907.0	1,081.6	996.3
<i>Total revenues</i>	\$28,934.9	\$26,387.8	\$26,901.2
<i>ABC profits</i>	\$162.9	\$131.4	\$116.0
<i>Sales Tax (0.25%)</i>	522.5	575.2	582.6
<i>Transfers per the Appropriations Act</i>	129.0	-27.2	94.6
<i>Total transfers</i>	\$814.3	\$679.4	\$793.2
<i>Total general fund</i>	\$29,749.2	\$27,067.1	\$27,694.5

*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 2022.

Net Individual Income Taxes

Withholding: In FY 2022, withholding receipts (53 percent of total revenues) increased 9.5 percent, exceeding the forecast growth rate of 9.0 percent and \$73.1 million above the official revenue forecast.

Nonwithholding: Collections of individual nonwithholding (24 percent of total revenues) rose 30.5 percent in FY 2022, exceeding the official revenue forecast of 2.5 percent growth and contributing \$1.5 billion 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 \$270 million for the nonwithholding collar. The nonwithholding collar is the 10-year average of nonwithholding payments as a percent of total revenues (17.2 percent), limited to 1 percent of General Fund revenues.

Refunds: Individual income tax refunds were \$280.2 million less than expected in FY 2022. The amount of refunds issued fell 9.6 percent over last year, compared with the official revenue forecast of 4.9 percent growth.

Retail Sales and Use Taxes

Collections of sales and use taxes (16 percent of total revenues) were \$120.5 million above the official revenue forecast. This represented a 9.4 percent increase for the year, ahead of the official revenue forecast of 6.5 percent growth.

Corporate Income Taxes

Corporate income tax collections (7 percent of total revenues), historically the most volatile revenue source, fell short of the official revenue forecast. Collections were \$30.9 million below expectations in FY 2022, with growth of 30.5 percent compared with the official revenue forecast of 32.6 percent growth.

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 official revenue forecast in FY 2022 by \$3.4 million. Collections declined 3.8 percent in FY 2021 compared with the official revenue forecast of a 4.3 percent decline.

Insurance Premiums License Taxes

Insurance premiums license tax collections (1 percent of total revenues) were \$7.5 million above the official revenue forecast. Collections grew 17.6 percent for the year compared with the official revenue forecast of 15.5 percent growth.

General Fund revenue collections expected to slow over the forecast horizon

In the November standard forecast, total General Fund revenues would increase by \$1.5 billion in FY 2023. The increase from the official revenue forecast comes mainly from upward revisions to withholding and sales and use taxes. Under the standard forecast, revenues would decrease 8.8 percent in FY 2023 and increase 1.9 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 close to \$4.6 billion, an increase of \$457.5 million over last year. Revenue collections grew by 11.1 percent, slightly lagging the official forecast of 11.9 percent, resulting in a forecast variance of -0.7 percent.

The December 2022 standard forecast shows an increase of \$75.0 million and \$117.3 million in FY 2023 and FY 2024, respectively.

Around 65 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 decreased by 8.1 percent in 2022, and are expected to increase by 15.1 percent in 2023, and 1.2 percent in 2024. Nongeneral funds are around 65 percent of total state revenue during the 2022-2024 biennium.

Federal grants and other contracts

Federal grants and other contracts are the largest single source of nongeneral fund revenue, about 53 percent of the total. 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 2022, federal grants and other contracts decreased to \$22.5 billion. This source is projected to increase by .4 percent in 2023 and decrease by .4 percent in 2024, resulting in projection of \$22.6 billion in 2023 and \$22.5 billion in 2024.

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 \$9.3 billion in 2023 and \$9.7 in 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. 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. 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 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 \$43.0 million each year. Over the 2022-2024 biennium, the Virginia Tobacco Settlement Fund is expected to receive \$9.7 million each year and the Virginia Health Care Fund is estimated to take in \$47.5 million annually.

Nongeneral fund forecast for the 2022-2024 biennium*

	Actual FY 2022	Forecast FY 2023	Forecast FY 2024
Motor vehicle fuel tax	\$1,225.9	\$1,436.6	\$1,532.5
Unemployment compensation payroll tax	\$397.9	\$506.8	\$588.9
Special highway tax from sales tax	\$1,368.3	\$1,354.6	\$1,364.8
Motor vehicle sales tax and use tax	\$1,209.3	\$1,141.8	\$1,078.2
Other taxes	\$2,335.4	\$1,465.7	\$1,542.8
Rights and privileges	\$1,298.1	\$1,314.9	\$1,381.6
Sale of property and commodities	\$2,800.3	\$2,875.1	\$2,908.9
Assessment & receipts for special Services	\$2,429.0	\$2,635.1	\$2,757.0
Institutional revenue**	\$2,816.0	\$9,311.1	\$9,739.7
Interest dividends and rents	\$438.8	\$238.0	\$249.2
Federal grants and contracts	\$22,501.9	\$22,588.1	\$22,488.6
Master Tobacco Settlement Agreement Funds	\$75.7	\$91.2	\$91.2
Other Revenue	\$3,834.5	\$4,234.1	\$4,040.7
Total	\$42,731.0	\$49,193.3	\$49,764.1

*Based on December 2022 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.