

Resources

The proposed 2020-22 budget includes \$48.2 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation (2020-22 biennium, \$ in millions)	
Beginning Balance	\$563.0
Adjustments to the Balance	119.6
Official GF Revenue Estimate	46,218.5
Transfers	<u>1,315.4</u>
GF Resources Available for Appropriation	\$48,216.5

Available Balance

The budget, as introduced, includes a projected beginning balance of \$563.0 million at the close of the 2018-20 biennium. This beginning balance results primarily from the FY 2019 revenue surplus, the FY 2020 revenue forecast adjustment, positive net transfer adjustments and proposed net spending reductions in FY 2020 included in HB/SB 29.

The \$119.6 million adjustment to the balance reflects the appropriation of \$47.4 million from excess FY 2019 revenues set aside for the \$32.4 million “Part A” deposit to the Water Quality Improvement Fund (WQIF) generated by the FY 2019 revenue surplus, and \$14.6 million for the “Part B” deposit, generated by unexpended appropriations at the end of FY 2019. In addition, \$77.4 million is set aside for the mandatory Revenue Stabilization Fund deposit resulting from the FY 2019 revenue surplus. These amounts will be appropriated in FY 2021. The adjustments are offset by a reduction of \$500,000 each year pursuant to the Intergovernmental Cash Management Act.

Economic Projections

The 2020-22 general fund revenue forecast assumes revenue growth rates of 4.5 percent for FY 2021 and 3.7 percent for FY 2022. Built into the forecast is the assumption that economic growth will continue at both the national and state levels. Virginia is expected to have slightly softer growth than the nation with Virginia employment growing 0.6 percent in FY 2021 and 0.4 percent in FY 2022, compared to 0.8 percent and 0.7 percent for the U.S.

Embedded in this forecast is the continuation of the “collar” on nonwithholding tax collections. The collar is an adjustment applied to the nonwithholding forecast which is intended to correct for large variations in nonwithholding tax revenues. The collar is calculated as the lesser of (i) the difference between the forecast model’s estimate of nonwithholding collections and 16.14 percent of general fund revenues (the long term average share of general fund revenues), or (ii) one percent of general fund revenues. Applying the collar lowers forecasted revenues by \$227.1 million in FY 2021 and \$235.3 million in FY 2022, equivalent to 1 percent general fund each year.

In addition, proposed policy changes that impact general fund revenues are expected to add \$42.1 million over the biennium. These proposals are outlined in more detail below. After accounting for proposed policy changes, technical and forecast adjustments, projected general fund revenue collections total \$22,698.1 million in FY 2021 and \$23,529.4 million in FY 2022.

Economic Variables Assumed In Forecast				
Percent Growth Over Prior Year				
(December Forecast)				
	<u>FY 2021</u>		<u>FY 2022</u>	
	<u>VA</u>	<u>U.S.</u>	<u>VA</u>	<u>U.S.</u>
Employment	0.6%	0.8%	0.4%	0.7%
Personal Income	4.2%	4.3%	4.1%	4.4%
Wages & Salaries	4.6%	4.8%	4.0%	4.6%

**Forecast of General Fund Revenues
Projected Growth**

(2020-22 biennium, \$ in millions)

	<u>FY 2021</u>	<u>% Growth</u>	<u>FY 2022</u>	<u>% Growth</u>
Net Individual	\$16,164.2	5.8%	\$16,840.4	4.2%
Corporate	1,019.2	5.7%	1,132.6	11.1%
Sales	3,893.0	2.6%	3,955.6	1.6%
Insurance	420.1	2.7%	437.1	4.0%
Recordation	388.1	(11.3%)	357.0	(8.0%)
All Other	<u>804.5</u>	(1.2%)	<u>806.7</u>	0.3%
Total Revenues	\$22,698.1	4.5%	\$23,529.4	3.7%

Proposed NGF Tax Policy Changes

The proposed budget includes \$497.0 million in new nongeneral fund revenues that, if adopted, free up a like amount of general fund resources for appropriation. The policy proposals include increasing the state tax on cigarettes and other tobacco products, imposing a tax on games of skill, and reducing transfers of GF recordation tax revenues to transportation.

HB/SB 30 assumes an increase in the state cigarette tax from \$0.30 per pack to \$0.60 per pack and increasing the tax on other tobacco products imposed on distributors from 10 percent to 20 percent. Combined, these adjustments yield an additional \$250.0 million in revenue to the Health Care Fund over the biennium. In addition, \$125.0 million over the biennium is assumed to result from imposing a net terminal tax on games of skill.

Nongeneral fund revenue also is assumed from a package of transportation funding adjustments that will be considered during the 2020 General Assembly. Included is revenue from an increase in the gas tax of \$0.04 per gallon per year over three years which is partly offset by reducing the motor vehicle registration fee and eliminating motor vehicle inspections. The resulting net increase in nongeneral fund revenue is estimated at \$453.9 million over the biennium. Offsetting these increases is the elimination of \$61.0 million each year from transportation from recordation tax revenues used to support Route 58, the Northern Virginia Transportation District, and the Chesapeake Oak Grove Connector project. These taxes will revert to the general fund, and the Virginia Department of Transportation will utilize existing NGF resources to pay the debt service for which these revenues had been dedicated.

**Nongeneral Fund Revenue Impact of Proposed
Policy Changes**

(2020-22 biennium, \$ in millions)

	<u>FY 2021</u>	<u>FY 2022</u>	<u>2020-22</u>
Cigarette Tax Increase	\$99.1	\$108.2	\$207.3
Other Tobacco Tax Increase	20.1	22.6	42.7
Net Terminal Tax on Games of Skill	50.0	75.0	125.0
Reduce GF Recordation Tax Transfers to Transportation	<u>61.0</u>	<u>61.0</u>	<u>122.0</u>
Total	\$230.2	\$266.8	\$497.0

Proposed Tax Policy Changes Assumed in Revenue Forecast

The HB/SB 30 revenue forecast contains \$42.9 million in additional general fund revenues based on three tax-related initiatives. The first is a proposal at the Virginia Department of Taxation to expand field audits in Northern Virginia to keep pace with the broadening online taxpayer base and growing population. The Department anticipates this will produce \$3.1 million in additional revenue in FY 2021 and \$5.5 million in additional revenue in FY 2022. Second, the Department of Taxation proposes to create a worker misclassification audit team comprised of six additional auditors and three support staff that is estimated to result in additional revenue of \$1.7 million in FY 2021 and \$2.6 million in FY 2022. Third, the Department proposes to lower the threshold for 1099K reporting to \$600, which is assumed to generate additional revenue of \$10.0 million in FY 2021 and \$20.0 million in FY 2022.

Partially offsetting the anticipated increase in general fund revenues is a proposal related to bottomlands permit fees. This proposal would reduce revenues by \$0.4 million in FY 2021 and \$0.4 million in FY 2022. Legislation to be considered during the 2020 legislative session would redirect oyster leasing revenues from the general fund to the Oyster Leasing Conservation and Replenishment Programs Fund.

Transfers

Proposed transfers to the general fund total \$1.3 billion over the biennium. Of this amount, \$860.6 million represents the standard 0.375 percent sales tax transferred from the Local Real Estate/SOQ Fund for public education.

Other customary transfers include ABC profits of \$247.0 million for the biennium, with an additional \$130.8 million of ABC profits and \$18.3 million of spirit taxes offsetting GF costs at the Department of Behavioral Health and Developmental Services for substance abuse programs.

HB/SB 30 proposes transfers of \$33.0 million over the biennium to the Game Protection Fund attributable to the watercraft sales and use tax and from the portion of the general sales tax dedicated to the Fund by *Code*, and \$28.1 million to the Virginia Family Access to Medical Insurance Security Plan Trust Fund.

The proposed budget also includes transfers of \$2.8 million each year to the Department of Motor Vehicles to replace the anticipated loss of driving privilege reinstatement fee revenue, and transfers totaling \$2.7 million to the Virginia Waterway Maintenance Grant Program and Fund, administered by the Virginia Port Authority.

Also reflected in HB/SB 30 is a reduction in the transfer from the court debt collections program at the Department of Taxation of \$0.6 million each year, lowering the biennial transfer to \$4.8 million. The remaining transfer actions are customary transfers that have not been adjusted beyond technical updates compared to the amounts transferred in Chapter 854 of the 2019 Acts of Assembly.

Proposed Transfers in HB/SB 30, as Introduced

(2020-22 biennium, \$ in millions)

0.375 percent Sales Tax - Public Education	\$860.6
ABC Profits	247.0
ABC/Wine to DBHDS for Substance Abuse Treatment	149.0
\$4 for Life Transfer	25.0
NGF Indirect Costs	24.6
Local and Transportation Sales Tax Compliance	18.4
Unrefunded Marine Fuels	14.8
Uninsured Motorists Fees	14.8
IDEA Fund Transfer	10.0
ABC Operational Efficiencies	7.7
Court Debt Collections	4.8
Redirect Communication Sales Tax for Relay Savings	4.0
Miscellaneous Other	2.1
OAG Revolving Fund Transfer	1.0
Land Preservation Fund Transfer	0.9
Transfer Sales Tax to Waterway Maintenance Fund	(2.7)
DMV Replace Reinstatement Fee Revenue	(5.6)
Watercraft Sales and Use Tax	(11.0)
Transfer Sales Tax to Game Protection Fund	(22.0)
Children's Health Insurance Program	<u>(28.1)</u>
Total	\$1,315.4