

Resources

The adopted 2020-22 budget includes \$48.9 billion in general fund resources available for appropriation.

General Fund Resources Available for Appropriation*	
(2020-22 biennium, \$ in millions)	
Beginning Balance	\$1,185.3
Adjustments to the Balance	119.6
Official GF Revenue Estimate	46,226.1
Transfers	<u>1,321.9</u>
GF Resources Available for Appropriation	\$48,853.0
<i>* Pre-COVID-19 estimates.</i>	

Available Balance

The budget, as adopted, includes a projected beginning balance of \$1,185.3 million at the close of the 2018-20 biennium. This beginning balance results primarily from the FY 2019 revenue surplus, the FY 2020 December and mid-session revenue forecast revisions, positive net transfer adjustments and FY 2020 net spending reductions included in Chapter 1283 of the 2020 Acts of Assembly (HB 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.

Pre-COVID-19 Economic Projections

The 2020-22 general fund revenue forecast assumes revenue growth rates of 3.3 percent for FY 2021 and 3.7 percent for FY 2022. Estimates are based on the consensus revenue forecast developed before the effects of the COVID-19 pandemic were apparent. Built into the forecast is

the assumption that economic growth will continue at both the national and state levels. Prior to the COVID-19 outbreak, Virginia was 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.

Also 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 of the general fund each year.

In addition, adopted 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 policy changes, technical and forecast adjustments, projected general fund revenue collections total \$22,687.8 million in FY 2021 and \$23,538.3 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%
* <i>Pre-COVID-19 estimates.</i>				

**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	\$16,159.1	4.8%	\$16,845.5	4.2%
Corporate	1,019.2	(1.2%)	1,132.6	11.1%
Sales	3,893.0	1.3%	3,955.6	1.6%
Insurance	420.1	6.6%	437.1	4.0%
Recordation	388.1	(17.2%)	357.0	(8.0%)
All Other	<u>808.3</u>	(0.7%)	<u>810.5</u>	0.3%
Total Revenues	\$22,687.8	3.3%	\$23,538.3	3.7%

* Pre-COVID-19 estimates.

NGF Tax Policy Changes

The adopted budget includes significant additional new nongeneral fund revenues related to policy changes that were adopted during the 2020 General Assembly. Major policy changes include increasing the state tax on cigarettes and other tobacco products, imposing a tax on games of skill, and increasing revenues dedicated to transportation.

Cigarette, Other Tobacco and Liquid Nicotine Taxes. Chapter 1289 of the 2020 Acts of Assembly (HB 30) includes an increase in the state cigarette tax from \$0.30 per pack to \$0.60 per pack, and increase in the tax on other tobacco products imposed on distributors from 10 percent to 20 percent, and a new tax on liquid nicotine. Combined, these adjustments yield an additional \$258.2 million in revenue to the Health Care Fund over the biennium.

Tax on Skill Games / COVID-19 Relief Fund. Chapters 1217 and 1277 of the 2020 Acts of Assembly (HB 881/SB 971) impose a monthly tax on distributors of skill games equal to \$1,200 for each skill game provided for play in Virginia through July 1, 2021. The tax is anticipated to generate approximately \$150.0 million in FY 2021 for the COVID-19 Relief Fund. As introduced, HB 881 and SB 971 would have effectively banned added skill games by adding them to the definition of illegal gambling. As enacted, the bills delay the ban until July 1, 2021.

Transportation Revenues. Net new nongeneral fund revenues of \$185.2 million in FY 2021 and \$402.8 million in FY 2022 are also assumed from a package of transportation funding

adjustments that were adopted. Chapters 1230 and 1275 of the 2020 Acts of Assembly (HB 1414/SB 890) adopt numerous structural changes to the transportation funding system, including increasing the motor fuels tax by \$0.10 per gallon over two years, reducing the annual motor vehicle registrations by \$10, establishing a new road user fee based on vehicle fuel economy, and expanding regional motor fuels taxes.

Nongeneral Fund Revenue Impact of Adopted 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
Tax on Liquid Nicotine	3.9	4.3	8.2
Tax on Skill Games / COVID-19 Relief	150.0	.00	150.0
Increase Transportation Revenues	<u>185.2</u>	<u>402.8</u>	<u>588.0</u>
Total	\$458.3	\$537.9	\$996.2

GF Tax Policy Changes

The revenue forecast assumed in Chapter 1289 of the 2020 Acts of Assembly (HB 30) contains \$49.7 million in additional general fund revenues related to policy changes endorsed by the General Assembly.

Audit and Enforcement. The first three adjustments are tax-related initiatives proposed by the Governor and supported by the General Assembly through legislation and related budget actions. The first is an effort 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, Chapters 681 and 682 of the 2020 Acts of Assembly (HB 1407/SB 744) prohibit an employer from classifying an individual as an independent contractor if he is an employee. The legislation authorizes the Department of Taxation to enforce the prohibition. The Department will 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, Chapters 248 and 63 of the 2020 Acts of Assembly (HB 730/SB 211) lower the threshold for 1099K reporting to

\$600, which is anticipated to generate additional revenue of \$10.3 million in FY 2021 and \$20.6 million in FY 2022.

Conformity. Chapters 255 and 1 of the 2020 Acts of Assembly (HB 1413/SB 582) advance the date by which Virginia conforms to the Internal Revenue Code from December 31, 2018, to December 31, 2019, resulting in a net GF reduction of \$4.7 million in FY 2021 and a net GF increase of \$2.4 million in FY 2022. The revenue impact of this bill is attributable to two provisions within the federal extenders bill: disaster relief provisions, and the repeal of the unrelated business tax (“UBTI”) on certain fringe benefits. In addition, the adopted budget incorporates revenue adjustments requested by the Governor in an executive amendment that reflects adjustments resulting from federal provisions enacted after the Governor’s budget was introduced. The adjustments result in a reduction in general fund revenue of \$1.3 million in FY 2021 and an increase of \$1.5 million in FY 2022.

District Court Civil Filing Fees. Language in Part 4-14 increases the fees for services of district court judges, clerks, and magistrates in civil cases by \$6, from \$30 to \$36. This includes fees associated with all general district court and magistrate services in each distress, detinue, interrogatory summons, unlawful detainer, civil warrant, notice of motion, garnishment, attachment issued, or other civil proceeding.

Texas Hold'em Event Fees. Chapter 982 of the 2020 Acts of Assembly (SB 936) allows certain qualified organizations to conduct Texas Hold'em poker events in conjunction with charitable gaming activities, subject to conditions to be prescribed by the Charitable Gaming Board. An additional 0.25 percent audit and administration fee is assessed on the gross receipts generated from charitable gaming activities which is projected to increase GF revenues by \$560,803 each year.

Partially offsetting the anticipated increase in general fund revenues is a general fund reduction of \$0.4 million in FY 2021 and \$0.4 million in FY 2022 related to bottomlands permit fees. Chapter 806 of the 2020 Acts of Assembly (SB 702) redirects oyster leasing revenues from the general fund to the Oyster Leasing Conservation and Replenishment Programs Fund.

**General Fund Revenue Impact of Adopted
Policy Changes**

(2020-22 biennium, \$ in millions)

	<u>FY 2021</u>	<u>FY 2022</u>	<u>2020-22</u>
Expanded Field Audits	\$3.1	\$5.5	\$8.6
Worker Misclassification Enforcement	1.7	2.6	4.3
1099K Reporting	10.3	20.6	30.9
Tax Conformity	(6.0)	3.9	(2.1)
District Court Civil Filing Fees	3.9	3.9	7.7
Texas Hold'em Event Fees	0.6	0.6	1.1
Oyster Leasing Programs	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.8)</u>
Total	\$13.2	\$36.7	\$49.7

Transfers

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 \$253.8 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.

Chapter 1289 of the 2020 Acts of Assembly (HB 30) includes 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 adopted 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 Chapter 1289 of the 2020 Acts of Assembly (HB 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 (HB 1700).

Transfers in Chapter 1289 (HB 30, as Adopted)	
(2020-22 biennium, \$ in millions)	
0.375 percent Sales Tax - Public Education	\$860.6
ABC Profits	253.8
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	1.8
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	\$1,321.9