

Resources

The general fund resources assumed in HB 1800/SB 1100 include proposed changes totaling \$1.3 billion to general fund revenues and transfers that were assumed in Chapter 56, the amended budget adopted during the 2020 Special Session I (HB 5005) and signed by the Governor on November 18, 2020. The 2020 Special Session I was called to order on August 18, 2020, to amend the budget to account for significant revenue forecast adjustments anticipated as a result of the COVID-19 pandemic. Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005), incorporated a projected decline in GF revenues of \$2.7 billion over the biennium compared to the forecast assumed in Chapter 1289 of the 2020 Acts of Assembly (HB 30). Following adoption of Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005), the Joint Advisory Board of Economists (JABE) and the Governor's Advisory Council on Revenue Estimates (GACRE) met as part of the standard Fall Reforecasting process, and the majority of members endorsed a standard forecast reflecting better economic conditions than what was anticipated in the amended budget adopted during the Special Session I. The updated forecast is the basis for the general fund adjustments contained in HB 1800/SB 1100.

Through the first five months of FY 2021, total revenues increased 6.1 percent, far exceeding the annual forecast of a 1.8 percent decline contained in Chapter 56. Actual collections are \$638.0 million ahead of the forecast through November. Because revenues are well ahead of budget, general fund collections can decline 6.4 percent year-over-year through June to meet the interim year-end forecast.

The economics underlying the positive year-to-date variance is somewhat overstated as approximately \$250.0 million of current year collections were determined by the Department of Taxation to be payments that should have been received in the prior fiscal year but were not because of confusion around the filing deadline. As part of the actions taken to control the spread of the virus, the federal tax filing deadline was extended from April 15th to July 15th. While the state income tax filing deadline was extended from May 1st to June 1st, many taxpayers elected to wait and file in July when their federal taxes were due, after the fiscal year had ended.

Based on the advice of JABE and GACRE, the Governor's proposed base forecast increases general fund revenues \$689.7 million in FY 2021 and \$552.7 million in FY 2022. In addition to economic adjustments to the forecast, HB 1800/SB 1100 includes net reductions of \$43.0 million associated with proposed and assumed tax policy adjustments, including partial conformity with the tax provisions of the federal Coronavirus Aid, Relief, and Economic Security Act explained below. When added to the economic-based revisions to the forecast, anticipated general fund revenue growth (excluding transfers) is 1.2 percent in FY 2021 and 3.3 percent in FY 2022, bringing total assumed general fund collections to \$46.1 billion for the biennium.

In total, the proposed revisions to the FY 2020-22 resources contained in HB 1800/SB 1100 include \$1.26 billion more in general fund resources than that assumed in Chapter 56 of the 2020

Acts of Assembly, Special Session I (HB 5005). The resource adjustments reflect a \$1.2 billion increase in the general fund revenue forecast and net transfer additions of \$58.0 million. There are no adjustments needed to the beginning balance. As proposed, the amendments contained in HB 1800/SB 1100 would leave an unappropriated balance of \$51.1 million at the close of FY 2022.

Change to General Fund Resources Available for Appropriation			
(\$ in millions)			
	<u>Chapter 56</u>	<u>HB 1800/ SB 1100</u>	<u>Change</u>
Prior Year Balance	\$2,874.1	\$2,874.1	\$0
Additions to Balance	<u>(1,254.6)</u>	<u>(1,254.6)</u>	<u>0</u>
Net Adjustments to Balance			\$0
Chapter 56 Revenue Estimate	\$43,538.6	\$43,538.6	\$0
GACRE Forecast Adjustments		1,242.4	1,242.4
CARES Act - Partial Conformity		(41.7)	(41.7)
Other Tax Policy Adjustment*		(1.3)	(1.3)
Transfers	<u>1,222.8</u>	<u>1,280.8</u>	<u>58.0</u>
Total GF Resources	\$46,380.8	\$47,638.2	\$1,257.4
Unappropriated Balance (Ch. 56)			\$302.2
HB 1800/SB 1100 Change in Available Resources			1,254.4
HB 1800/SB 1100 Net Reduction / (Increase) in Spending			<u>(1,508.5)</u>
Unappropriated Balance (HB 1800/SB 1100)			\$51.1
<i>*Tax policy adjustment relates to proposed changes to the conservation tillage and advanced technology pesticide and fertilizer application credits in accordance with legislation to be considered by the 2021 General Assembly.</i>			

Economic Projections

The economic growth assumed in HB 1800/SB 1100 reflects conditions that are much better than originally estimated when COVID-19 first affected the economy. When the Joint Advisory Board of Economists met prior to the Special Session, the standard forecast assumed a significant contraction in the economy in FY 2021. Real GDP was projected to contract 4 percent for the year. Now, rather than a 4 percent contraction in real GDP in FY 2021, the forecast calls for a 0.8 percent increase. Likewise, Virginia employment is expected to fall just 0.3 percent for the fiscal year instead of a 2 percent decline that was assumed in Chapter 56 of the 2020 Acts of Assembly,

Special Session I (HB 5005). The proposed budget assumes Virginia personal income will grow 3.7 percent in FY 2021 and 3.4 percent in FY 2022 and Virginia wage and salary income is expected to grow 3.2 percent in FY 2021 and 3.9 percent 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>
U.S. Real GDP	-	0.8%	-	2.9%
Employment	(0.3%)	(1.8%)	1.0%	3.3%
Personal Income	3.7%	2.8%	3.4%	0.6%
Wages & Salaries	3.3%	3.0%	3.9%	5.8%

Tax Policy Changes Assumed in Revenue Forecast

Embedded in the Governor’s amended budget proposal are revenue reductions associated with tax policy changes that have not been adopted by the General Assembly. These changes include advancing Virginia’s fixed date conformity to the federal tax code, partially deconforming from recently enacted federal tax changes, and other changes to existing Virginia tax policies.

Fixed Date Conformity. Language which would change Virginia’s fixed date conformity to the federal tax code date of December 31, 2020, is included in the budget. Stand-alone legislation enacting this change also is expected to be introduced to the 2021 General Assembly Session.

Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act, signed into law in March 2020, contains a number of provisions that will impact individuals and businesses related to income taxes. The introduced budget assumes conformity with five tax provisions included in the CARES Act that are estimated to have a negative general fund impact totaling \$41.7 million over the biennium. The first provision allows the exclusion of Paycheck Protection Program (PPP) loan forgiveness. The second provision allows taxpayers to include COVID-19 related distributions in taxable income over a three-year period. Third is the exclusion for certain student loan repayments by employers. The fourth CARES Act tax provision allows individuals who claim the standard deduction to claim an above-the-line deduction of up to \$300 for charitable contributions in 2020, and the fifth provision increases the income-based limitations on charitable deductions. Other tax provisions included in the CARES Act which primarily

impact business taxpayers are specifically excluded from conformity language in HB 1800/SB 1100.

Other Tax Policy Changes. The revenue estimate also includes a negative adjustment of \$1.3 million the second year that relates to proposed changes to the conservation tillage and advanced technology pesticide and fertilizer application credits in accordance with legislation to be considered by the 2021 General Assembly. The proposed legislation would combine the existing conservation tillage and advanced technology pesticide and fertilizer application credits into one credit, and the combined credit amount would be increased to \$17,500, resulting in a loss of general fund revenues.

Changes in Revenues

The revised forecast assumed in HB 1800/SB 1100, including proposed tax policy changes, increases total general fund revenues by \$655.5 million in fiscal year 2021 and \$543.9 million in fiscal year 2022. The increase comes mainly from upward revisions to corporate income, sales and use taxes, and recordation taxes. Revenues are assumed to grow by 1.2 percent in fiscal year 2021 and increase 3.3 percent in fiscal year 2022.

Change in GF Revenues by Source Compared to Chapter 56 (\$ in millions)				
<u>Major Tax Sources</u>	<u>Estimated FY 2021</u>	<u>Annual Growth</u>	<u>Estimated FY 2022</u>	<u>Annual Growth</u>
Net Individual Income	\$64.5	1.0%	\$37.8	3.8%
Corporate Income	171.0	19.9%	146.6	6.3%
Sales and Use	262.9	(2.6%)	267.0	2.7%
Insurance Premiums	(3.5)	(7.4%)	1.3	8.1%
Wills (Recordation)	126.9	13.6%	74.0	(15.0%)
All Other	<u>33.7</u>	<u>(4.0%)</u>	<u>17.2</u>	<u>1.8%</u>
Total GF Revenues	\$655.5	1.2%	\$543.9	3.3%

Changes in Transfers

Net transfer adjustments total \$58.0 million in HB 1800/SB 1100. The largest increase is derived from adjustments to the sales tax forecast for the 0.375 percent of sales tax transferred to

the general fund for K-12 education. This includes an adjustment of \$57.9 million to the base sales tax forecast. The only other proposed transfers are minor technical adjustments.

Changes to Transfers Compared to Chapter 56	
(\$ in millions)	
	<u>2020-22</u>
Transfers:	
Base Sales Tax Forecast Adjustment (0.375 cents for K-12)	\$57.9
Miscellaneous Other Transfers	<u>0.1</u>
Total Transfer Adjustments	\$58.0