

Virginia's Revenue and Budget Outlook

November 18, 2021

Outline

1. 2021 Special Session I and 2021 Special Session II Recap
2. General Fund Revenue Outlook
3. Conformity to Federal Tax Law – Decisions for the 2022 Session
4. 2022-2024 Budget Pressures and 2022 Session Outlook

2021 Special Session I & 2021 Special Session II Recap

2021 Special Session I Recap: Budget Priorities

- Investments in the people of Virginia and COVID Response:
  - **In Education**: No loss funding for K-12 enrollment, learning loss funding, support positions, G3 initiative, flexible higher education funding.
  - **In Health and Human Resources**: Adding waiver slots and supports, personal care attendant rates, supporting mass vaccination efforts.
  - **In Employee Compensation**: For state, state-supported locals, teachers, state troopers, capitol police officers, other targeted actions.
  - **In Economic Development**: Tax relief to businesses, small business grants, access to low-cost credit, housing, broadband.

- Prioritizes structural balance:
  - $900 million deposit to the reserve fund, VRS payments, $137.8 million cash for maintenance reserve, additional one-time items.

2021 Special Session I Recap: Major Spending

- Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800) included $48.2 billion in general fund resources available for appropriation, a net increase of $1.8 billion compared to the previous budget.
  - Growth in revenues included increases in the forecast of revenues of $1.9 billion, partially offset by $235.3 million in reductions from tax policy actions mostly in response to recent federal legislation.
- **Major spending included:**
  - $900 million for a deposit to the Revenue Reserve Fund;
  - $437.5 million for K-12 No Loss Funding for Local School Divisions;
  - $174.6 million for K-12 sales tax revenue update & GF dollars to replace previous COVID-19 Relief Fund NGF support;
  - $153.6 million for state share of a 5 percent salary increase for teachers/support staff in the 2nd year;
  - $146.1 million for state & state-supported local employee 5 percent salary increase in the 2nd year;
  - $137.8 million for Capital Maintenance Reserve;
  - $113.5 million for Higher Education to Maintain Affordable Access;
  - $100.0 million for a payment to the Virginia Retirement System to reduce unfunded liabilities; and
  - $63.7 million for a personal care rate increase at the Department of Medical Assistance Services.

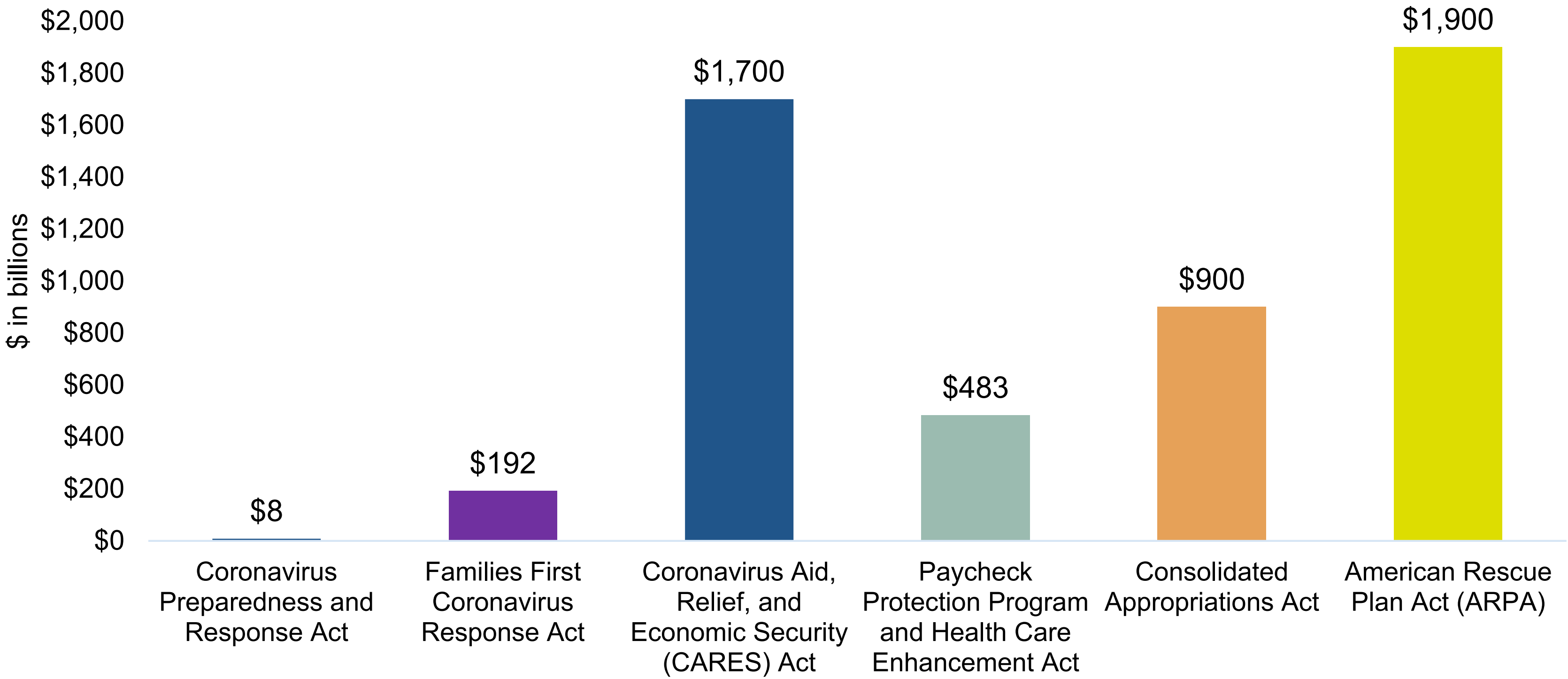
2021 Special Session I Recap: Savings Items

- New spending was offset by spending reductions totaling approximately $1.4 billion. Savings items are largely driven by forecast and enrollment changes.

- **Major savings items included:**
  - $551.8 million from Medicaid Forecast savings due to enhanced federal match rates;
  - $404.1 million from revised K-12 enrollment projections;
  - $98.5 million from Health Care Fund revenue and cash balances;
  - $75.1 million from K-12 Lottery Proceeds; and
  - $49.8 million in assumed debt service savings.

Reminder: Federal Stimulus Funding

- **Total of $5.2 trillion in federal spending across six separate bills.**



ARPA: Overview of Direct Funding Provided to the Commonwealth

Coronavirus State Fiscal Recovery Fund (Virginia Allocation: $4.29 billion)

- **Use of Funds:**
  - Respond to the COVID-19 public health emergency or its negative economic impacts.
  - To provide premium pay to essential workers.
  - For the provision of government services to the extent of the reduction in revenue due to such emergency.
  - To make necessary investments in water, sewer, or broadband infrastructure.
  - May not be used to pay for state tax cuts, to fund debt service or legal settlements, or to make deposits to state pension or rainy day funds.

Coronavirus Capital Projects Fund (Virginia Allocation: $221.7 million)

- **Use of Funds:**
  - Critical capital projects to directly enable work, education, and health monitoring, including remote options, in response to the public health emergency.

2021 Special Session II: Overview of Chapter 1

- Chapter 1 (HB 7001, as introduced) appropriated multiple ARPA funding streams related to Virginia's allocations.
  - Focused on allocations of the federal State and Local Recovery Fund (SLRF) within the known federal guidance on allowable uses.
  - Chapter 1 plans for the allocation of almost $3.2 billion of the nearly $4.3 billion Virginia received under the SLRF portion of ARPA.
- Chapter 1 contained a number of language items.
- Chapter 1 did not appropriate or take into consideration any additional general fund dollars.

2021 Special Session II: SLRF Allocations by Category

Spending Category ($ in millions)	FY 2022 Appropriation	2022-2024 Biennial Budget	Total Allocation	% of Total Allocation
Unemployment Assistance	$935.6	$17.6	$953.2	25.4%
Broadband	709.2	9.5	718.7	19.1%
Wastewater and Drinking Water	355.8	55.8	411.5	11.0%
Public Health	214.9	97.0	311.9	8.3%
Rebuild VA and Other Small Business	276.5	26.5	303.0	8.1%
Education (Including Ventilation)	259.0	-	259.0	6.9%
Mental Health and Substance Use Disorder	133.9	112.8	246.6	6.6%
Utility Assistance	120.0	-	120.0	3.2%
Higher Education	161.0	-	161.0	4.3%
Public Safety	132.2	23.8	156.0	4.2%
Tourism	57.3	-	57.3	1.5%
All Other (Includes Parks and Food Access)	45.6	11.0	56.6	1.5%
Total	**$3,400.9**	**$353.9**	**$3,754.8**	**100%**

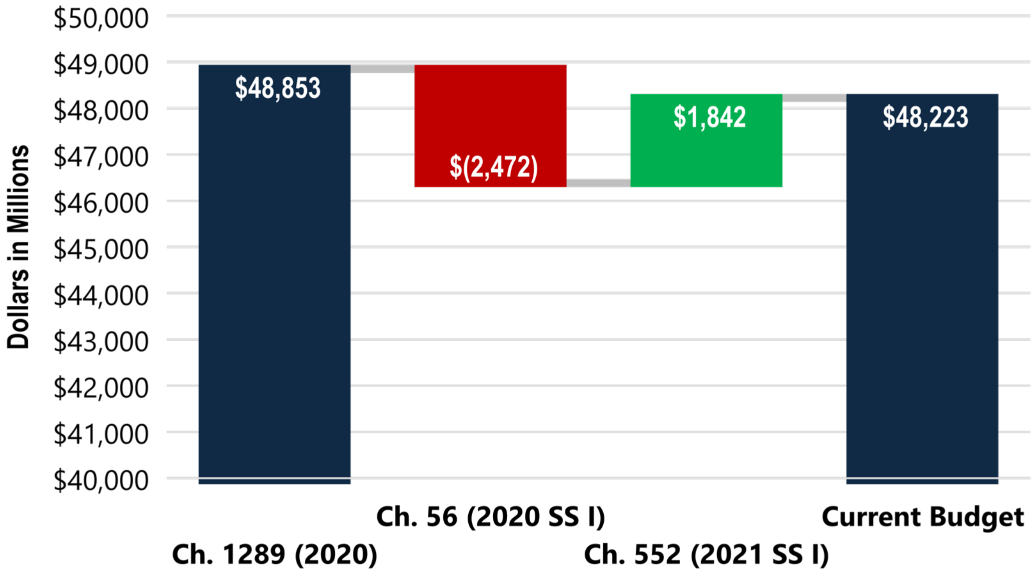
GF Revenue Outlook

Adjusting Revenue Projections for the Coronavirus Economy

- Before the pandemic, General Fund collections were ahead of the official forecast adopted during the 2020 Regular Session (Chapter 1289).
- In response to the public health emergency, the Governor issued a number of Executive Orders intended to safeguard public health and slow the rate of infection.
- These and other actions taken to combat the Coronavirus resulted in a loss of tax revenues to the Commonwealth.
- The anticipated reductions were reflected in the budget adopted during the 2020 Special Session I (Chapter 56).
- With improving economic conditions and better-than-expected actual tax collections, upward adjustments were made to the official forecast that was assumed in the budget adopted during the 2021 Special Session I (Chapter 552).
- Even with the upward revenue adjustments, actual FY 2021 collections exceeded the forecast.

Adjusting Revenue Projections for the Coronavirus Economy

After two adjustments, the 2020-22 biennial budget for GF resources is $629.7 million below the level assumed in the 2020 Appropriation Act (pre-pandemic).



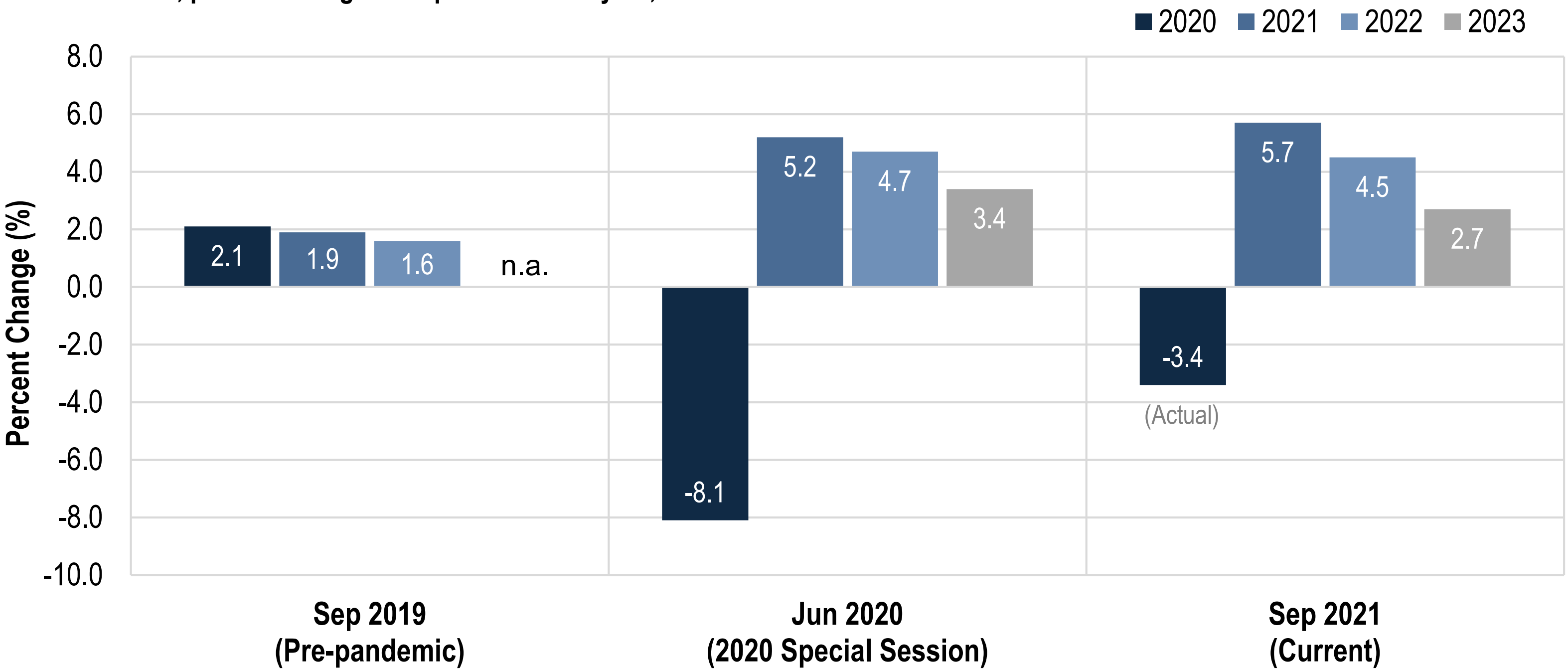
Source: Appropriation acts (includes transfers and net balance adjustments).

- Anticipating a significant decline in revenues related to the COVID-19 pandemic, GF resources were reduced by $2.5 billion during the 2020 Special Session.
- With better than expected collections through the first half of FY 2021, the official revenue forecast was increased by $1.8 billion during 2021 Special Session I.
- Resources assumed in the current budget are $629.7 million below the level assumed in the budget adopted before the pandemic began.

Revenue Forecasts Evolved in Response to Changing Economic Conditions

GDP growth forecasts have changed significantly in reaction to the pandemic.

U.S. Real GDP, percent change from prior calendar year, forecast



Source: VA Dept. of Taxation; IHS Markit (standard forecast).

FY 2021 Collections Exceeded the Forecast and Pre-pandemic Expectations

Major Sources ($ in millions)	Actuals FY 2021	% Chg FY 2021	Pre-Pandemic (Ch. 1289)		Current Budget (Ch. 552)	
			Estimate	Variance	Estimate	Variance
Withholding	$14,012.9	4.7%	$14,118.0	($105.1)	$13,739.6	$273.3
Nonwithholding	5,217.0	37.1%	4,101.0	1,116.0	3,972.0	1,245.0
Refunds	(1,926.2)	5.2%	(2,059.9)	133.7	(2,265.6)	339.4
Net Individual	$17,303.7	12.7%	$16,159.1	$1,144.6	$15,446.0	$1,857.7
Sales	4,166.2	12.4%	3,893.0	273.2	3,879.3	286.9
Corporate	1,515.7	49.8%	1,019.2	496.5	1,288.7	227.0
Wills/Suits/Deeds	679.7	40.6%	388.1	291.6	601.3	78.4
Insurance	363.1	0.7%	420.1	(57.0)	314.9	48.2
All Other	850.1	3.2%	808.3	41.8	790.6	59.5
Total GF Revenue	**$24,878.5**	**14.4%**	**$22,687.8**	**$2,190.7**	**$22,320.8**	**$2,557.7**
Transfers	**$758.6**	**7.8%**	**$655.8**	**$102.8**	**$695.5**	**$63.1**
Total General Fund	**$25,637.1**	**14.2%**	**$23,343.6**	**$2,293.5**	**$23,016.3**	**$2,620.8**

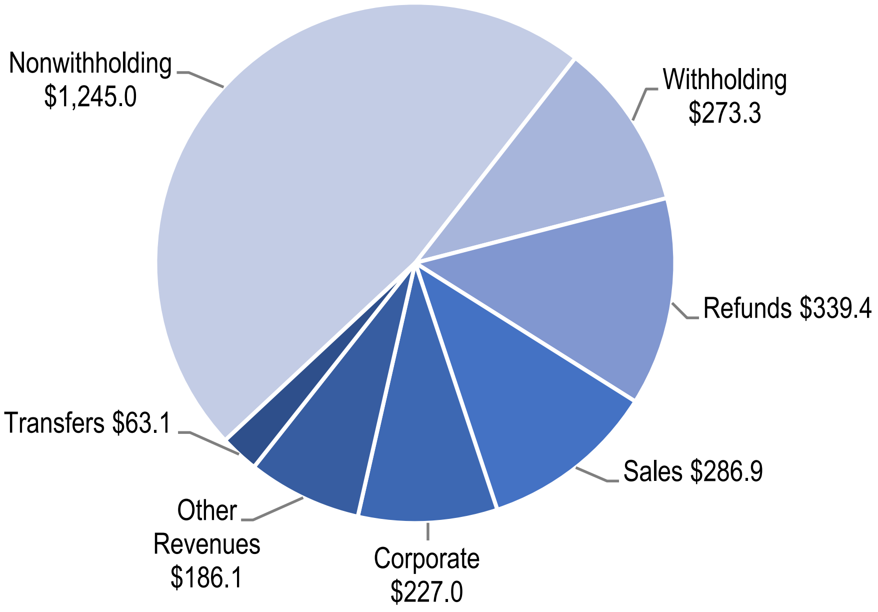
**Excludes balance adjustments.*

- FY 2021 collections exceeded the official forecast by $2.6 billion and exceeded pre-pandemic revenue outlook by more than $2.2 billion.

FY 2021 GF Resources Exceeded the Forecast by $2.6 Billion

Nearly one-half of the surplus was driven by nonwithholding income tax collections.

($ in millions)



Source: Secretary of Finance Joint Money Committee Presentation, August 18, 2021.

- All revenue sources exceeded the forecast.
- Nonwithholding income tax collections accounted for 47.5 percent of the surplus.
- Nonwithholding is comprised of individual income tax quarterly estimated payments and final payments.
- Historically, more than one-half of nonwithholding is driven by investment returns.
- Nonwithholding collections are highly volatile and difficult to forecast.
    - For example, in FY 2014, nonwithholding missed the forecast by $401.1 million.
    - Over the last 10 years, growth in nonwithholding collections has varied from as low as -10.1 percent to +37.1 percent.

All of the FY 2021 Surplus is Restricted, Committed or Assigned

- All of the FY 2021 surplus is restricted, committed or assigned on the balance sheet in accordance with the *Constitution of Virginia* and the *Code of Virginia*.*

• Rainy Day Fund – Mandated by the Constitution	$1.1 billion
• Rainy Day Fund – Statutory "Super" Deposit	$563.9 million
• Water Quality Improvement Fund (WQIF) Part A	$255.8 million
• WQIF Part B	$57.2 million
• Commonwealth Transportation Fund	$115.8 million
• Nonrecurring Expenditures	$57.9 million
• Replace Public Sector Revenue (ARPA)	$221.6 million
• Continuation of ARPA Initiatives Identified in Chapter 1	$170.1 million

- **However, except for Constitutionally-mandated deposits to the Revenue Stabilization Fund ("Rainy Day Fund"), the General Assembly has the authority to decide if and how to appropriate these set-asides.**

**Source: Secretary of Finance Joint Money Committee Presentation, August 18, 2021.*

Mandatory Deposits to the Revenue Stabilization Fund ("Rainy Day Fund")

Constitutional Requirement:

- Required if the combined growth in individual and corporate income taxes and sales taxes exceeds the prior six-year average combined growth rate.
- The amount of the deposit is equal to one-half of the growth above the six-year average.
- The amount of the deposit certified by the Auditor of Public Accounts is restricted on the balance sheet at the close of the fiscal year.
- The actual deposit to the Fund occurs in the second fiscal year following the surplus.

Source: Article X, Section 8, Constitution of Virginia.

Mandatory Deposits to the Revenue Stabilization Fund ("Rainy Day Fund")

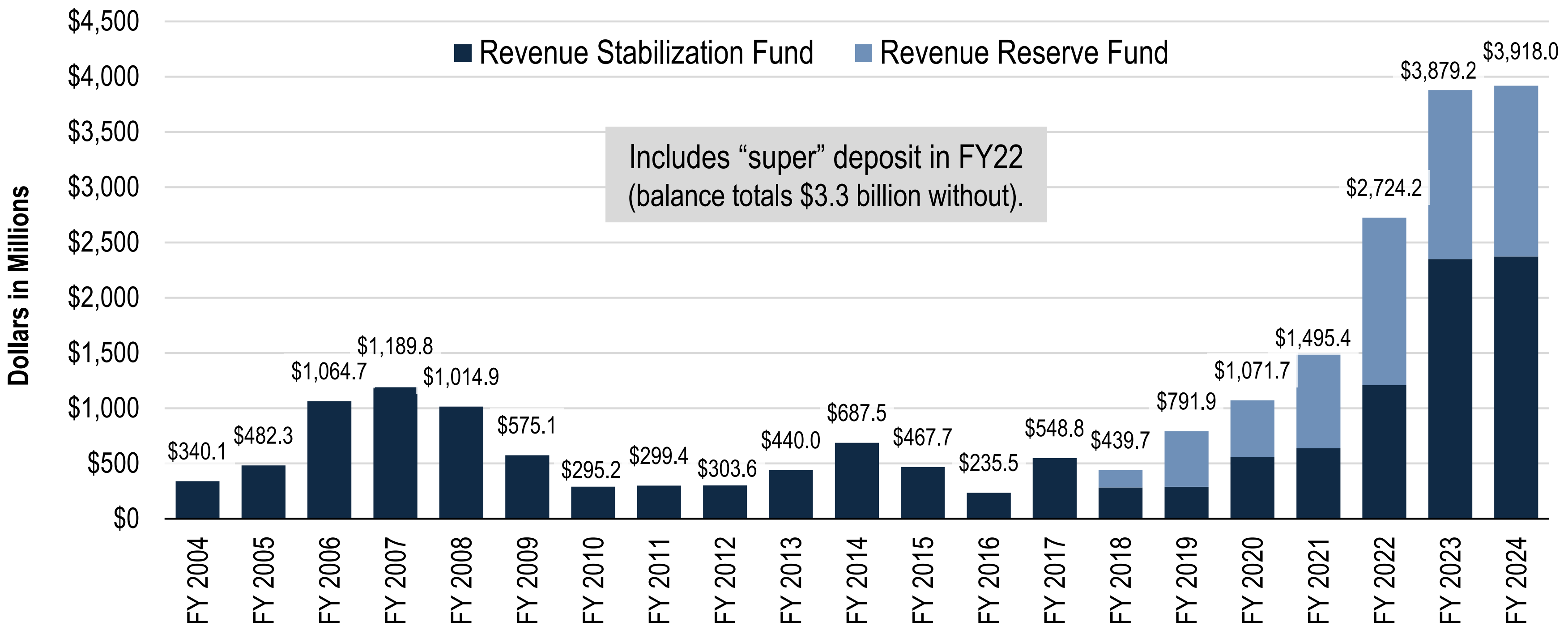
Statutory Requirement:

- An additional "super" deposit may occur if the combined growth in individual and corporate income taxes and sales taxes is at least eight percent AND at least 1.5 times the prior six-year average growth rate.
- The Governor must include an additional deposit in his budget recommendations that is at least equal to one-quarter of the growth above the six-year average (one-half the Constitutionally required deposit), but ONLY if the revised general fund revenue forecast for the fiscal year in which the deposit is to be made is at least five percent.
- The General Assembly considers this recommended appropriation alongside all others.

Source: § 2.2-1829, Code of Virginia.

With Additional "Super" Deposit, Reserves Will Reach $3.9 Billion in FY 2024

Combined total of Revenue Stabilization Fund and Revenue Reserve Fund.



Source: Secretary of Finance Joint Money Committee Presentation, August 18, 2021; VA Dept. of Planning and Budget; SFAC Staff analysis.

Other Major Balance Sheet Commitments

Commitment	Explanation
Water Quality Improvement Fund	The required commitment for deposits to the Water Quality Improvement Fund (“WQIF”) is calculated as 10 percent of general fund revenue collections that are in excess of the official estimates (“Part A“), and 10 percent of any unrestricted and unobligated general fund balance whose reappropriation is not required (“Part B”).
Transportation Trust Fund and Nonrecurring Expenditures	Two-thirds of the remaining general fund balance that is not otherwise restricted, committed, or assigned, is committed to the Transportation Trust Fund, and one-third is committed for nonrecurring expenditures (e.g. the acquisition or construction of capital outlay projects, the acquisition of land, or other expenditures of a one-time nature).
Replace Public Sector Revenue	American Rescue Plan Act (ARPA) funding may be used to replace lost revenue resulting from the COVID-19 pandemic. The amount of revenue loss is calculated using a formula that compares actual revenue collections against what could have been expected to occur in the absence of the pandemic. $221.6 million is committed on the balance sheet which represents amounts appropriated from this source in Chapter 1.
Continuation of ARPA Initiatives	Secretary of Finance also showed $170.1 million for the continuation of ARPA initiatives identified in Chapter 1 as committed on the balance sheet.

SFAC Staff General Fund Revenue Outlook

Significant upward adjustment needed in the current fiscal year; near trend growth anticipated in the 2022-24 biennium.

- FY 2021 surplus created a substantially higher base; revenue decline of 8.0 percent in the second year is all that is required to meet the official forecast assumed in the current budget.
- Year-to-date FY 2022 collections are well ahead of budget; more than $1.3 billion "in the bank."
- Continued economic growth and tight labor market supports $3.3 billion upward adjustment to the current fiscal year revenue forecast.
- Growth is expected to moderate in the next biennium, returning to something closer to trend growth as federal stimulus impact wanes.
- Staff forecast incorporates standard forecast assumptions with downward adjustments to mitigate downside risks.

FY 2022: YTD Revenue Collections are Well Ahead of the Official Forecast

Major Sources ($ in millions)	Jul - Oct FY 2022	Jul - Oct FY 2021	% Change	
			Actual	Req by Est
Withholding	$4,704.4	$4,287.7	9.7%	1.7%
Nonwithholding	1,070.4	1,131.5	-5.4%	-25.4%
Refunds	(262.9)	(383.6)	-31.5%	11.4%
Net Individual	$5,511.9	$5,035.6	9.5%	-7.6%
Sales & Use Tax	$1,352.5	$1,172.4	15.4%	-4.2%
Corporate	509.0	371.3	37.1%	-16.1%
Wills/Suits/Deeds	236.7	225.7	4.8%	-31.3%
Insurance	-	-	-	-0.6%
All Other	197.5	178.9	10.4%	-4.0%
Total GF Revenue	**$7,807.6**	**$6,983.9**	**11.8%**	**-8.0%**

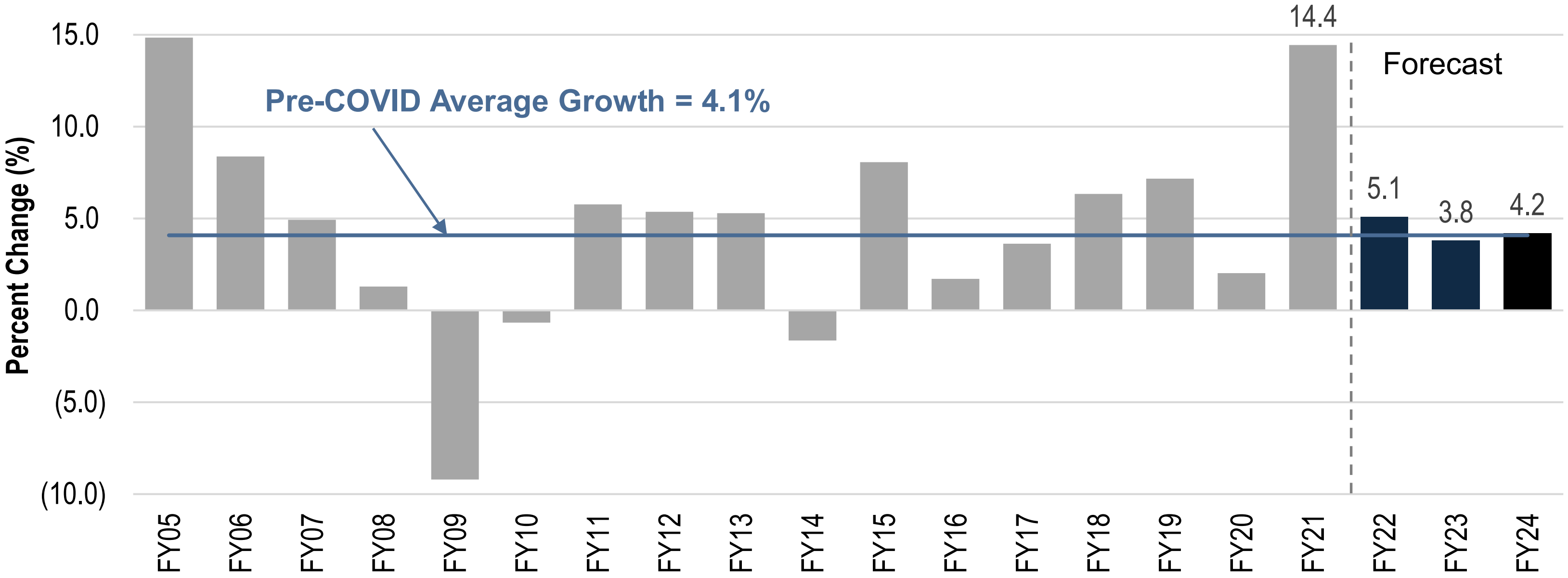
- Year-to-date, GF revenues are $823.7 million ahead of last year and more than $1.3 billion over the official forecast.

SFAC Staff General Fund Revenue Forecast

($ in millions)	Actual	SFAC Staff Estimate		
	FY 2021	FY 2022	FY 2023	FY 2024
Growth by Revenue Source				
Individual Income	2.4%	5.2%	3.9%	4.3%
Sales & Use	7.5%	6.6%	4.0%	3.9%
Corporate	36.1%	10.8%	5.3%	6.9%
Wills, Suits & Deeds (Recordation)	40.6%	-22.1%	-0.9%	0.0%
All Other Revenue Sources	2.5%	6.8%	1.8%	2.0%
Total GF Revenue Growth	**14.4%**	**5.1%**	**3.8%**	**4.2%**
General Fund Revenues	**$24,878.5**	**$26,158.1**	**$27,145.2**	**$28,291.3**
Transfers	**758.6**	**757.2**	**743.4**	**763.4**
Total GF Resources	**$25,637.1**	**$26,915.3**	**$27,888.6**	**$29,054.7**
GF Resources Above Official Forecast	**$2,620.8**	**$3,333.8**		

Near Trend Growth is Expected in the Next Biennium

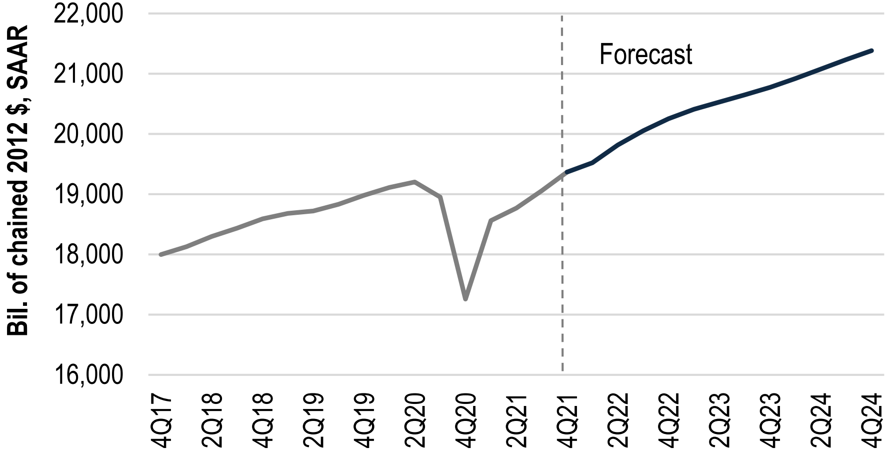
The GF revenue forecast is consistent with the Pre-COVID average growth rate of 4.1 percent.



- FY 2021 revenue growth is atypical; pre-COVID, from FY 2005 to FY 2019, general fund revenue growth averaged 4.1 percent per year.

Recovery Continues, But Growth Starts to Moderate

After rebounding from the pandemic, Real GDP growth moderates in FY 2023 and FY 2024.

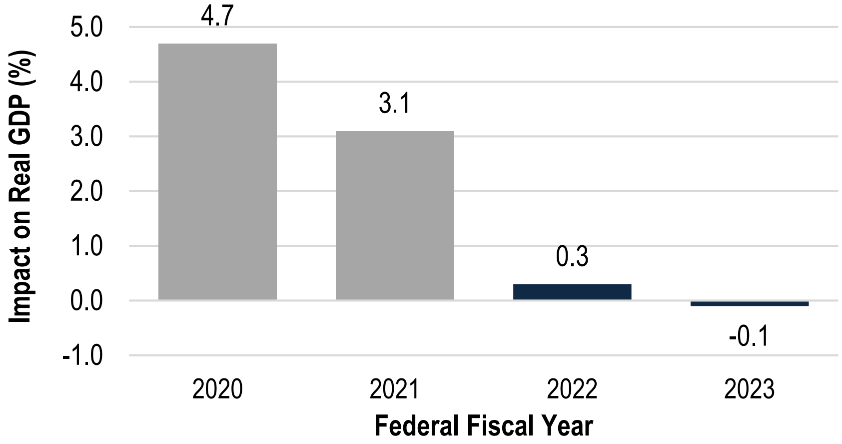


Source: Federal Reserve Bank of St. Louis; VA Dept. of Taxation; IHS Markit.

- Real Gross Domestic Product (GDP) shrank 31.2 percent in the April-June 2020 quarter, the worst quarterly decline on record.
- Real GDP surpassed pre-pandemic levels one year later.
- Growth of 5.1 percent is expected in the current fiscal year.
- Economic growth is expected to moderate in the 2022-24 biennium.

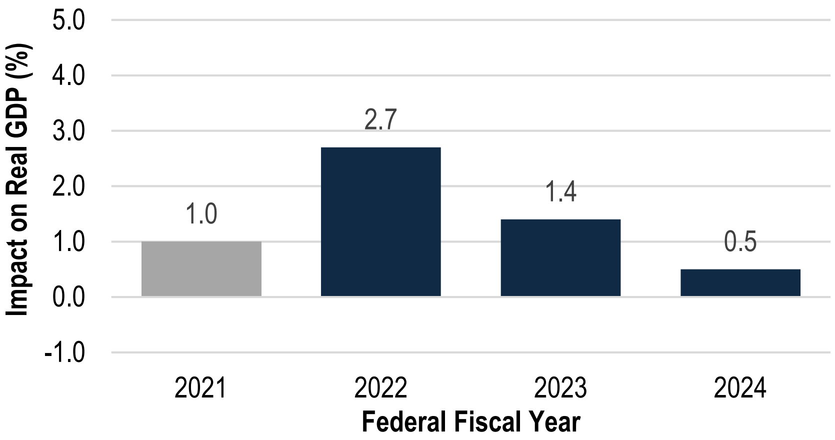
Economic Boost from Federal COVID Stimulus Will Begin to Wane

Coronavirus Preparedness and Response Supplemental Appropriations Act, Families First Coronavirus Response Act, CARES Act, PPP.



Source: CBO, The Effects of Pandemic-Related Legislation on Output (Sep 2020).

American Rescue Plan Act (ARPA).



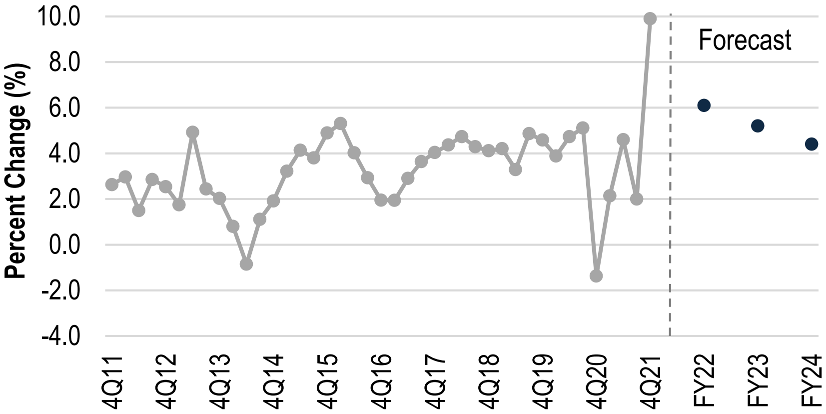
Source: CBO, Additional Information About the Updated Budget and Economic Outlook: 2021 to 2031 (Jul 2021).

- Congressional Budget Office projections show the economic impacts of federal COVID relief legislation declining over the forecast horizon.

Wage Growth and Strong Labor Demand Support Continued Growth in Withholding Tax Collections

Wages & salaries are expected to continue to grow, but at a slower rate in the next biennium.

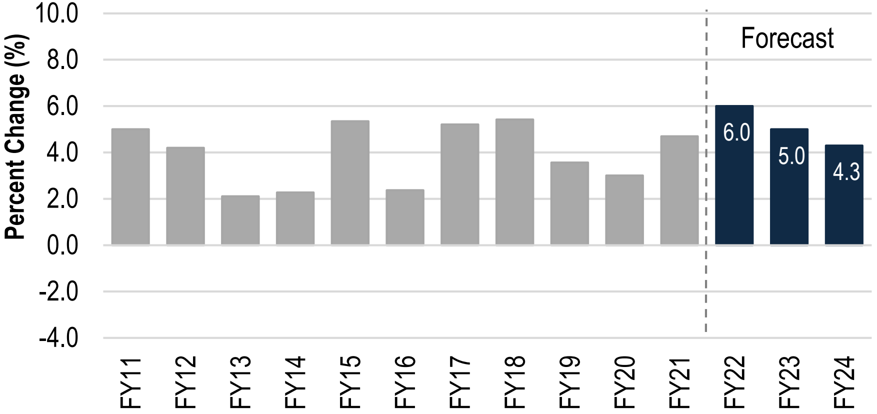
Year-over-year growth in VA Wages & Salaries



Source: Federal Reserve Bank of St. Louis; VA Dept. of Taxation; IHS Markit.

Withholding tax revenues are forecast to grow 4.3% to 6.0% over the forecast horizon.

Year-over-year growth in payroll withholding

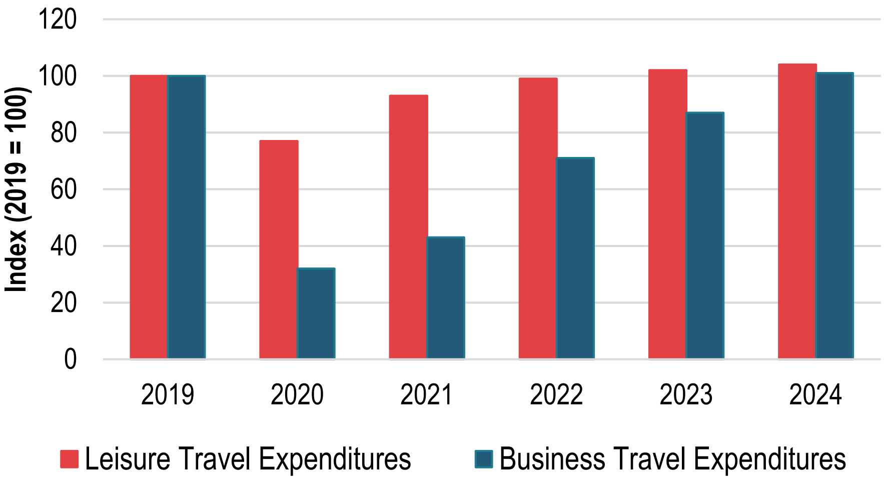


Source: VA Department of Taxation; SFAC staff estimates.

- Availability of labor may constrain job growth, but increases in average wages will drive continued growth in payroll withholding.

Recovery is Uneven for the Travel Industry

Nationally, business travel is lagging leisure travel.
Nationwide Travel Expenditures, Index to 2019 Levels



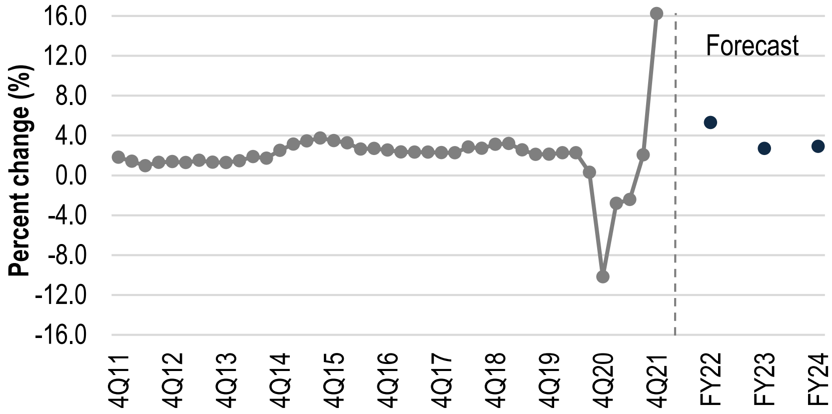
Source: Virginia Tourism Corporation; Tourism Economics US Domestic Travel Forecast Released Summer 2021 by the US Travel Association – Accessed October 25, 2021.

- According to the Virginia Tourism Corporation, recovery in business travel spending is expected in 2024, one year behind leisure travel.
- Travel spending in Northern Virginia, which accounts for one-third of the state's hotel supply, was 35 to 45 percent beneath 2019 levels over the summer of 2021, while the rest of the state was closer to 15 percent beneath 2019 levels.

Continued Growth in Sales Tax Collections Expected, but at a Slower Rate in the 2022-24 Biennium

Consumer spending rebounded in FY21 after a steep drop in 2020.

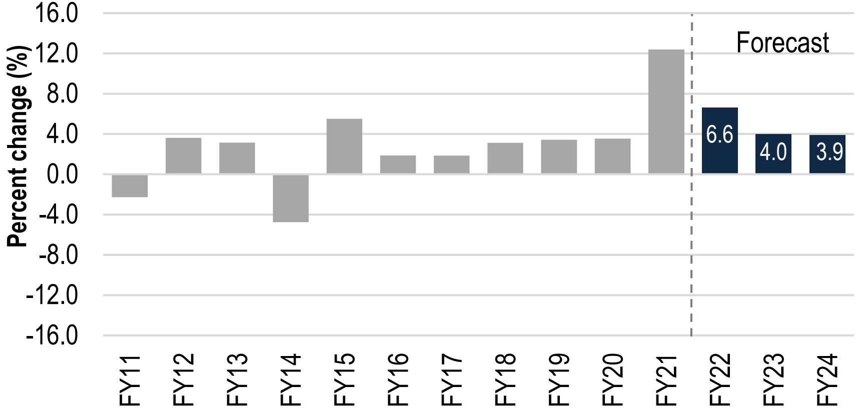
Growth in real US personal consumption expenditures, SAAR



Source: Federal Reserve Bank of St. Louis; VA Dept. of Taxation; IHS Markit.

After strong growth in FY21, sales tax revenues are forecast to grow more slowly in the next biennium.

Year-over-year growth in sales and use tax collections

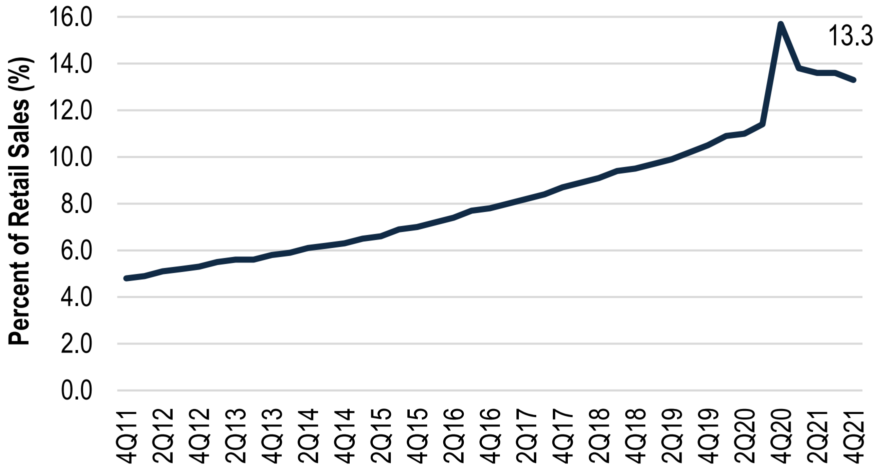


Source: VA Department of Taxation; SFAC staff estimates.

- Growth in total personal income and consumer spending is expected to slow.
- Staff anticipate sales and use tax collections to grow around 3.9 to 4.1 percent through the remainder of FY 2022 and the next biennium.

The Pandemic-Related Surge in E-Commerce Sales is Tapering Off

E-commerce share of total U.S. retail sales has tapered off after surging during the pandemic.



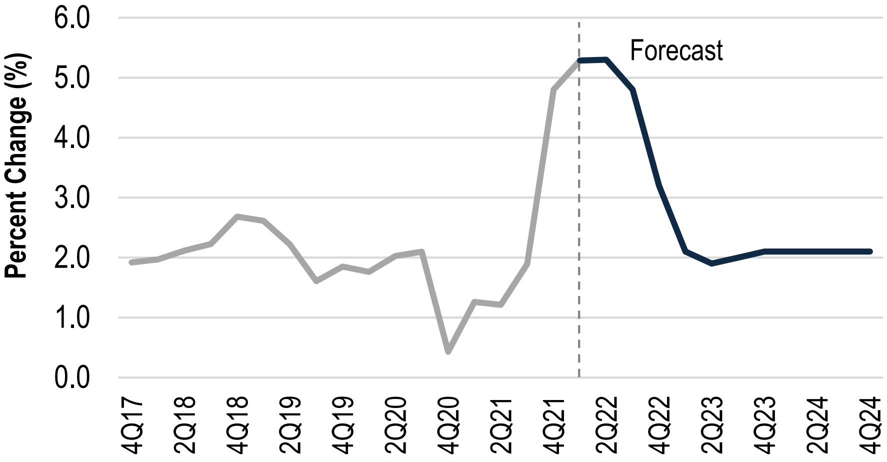
Source: U.S. Census Bureau, Quarterly E-Commerce Report.

- Nationally, during the peak of pandemic-related store closures, e-commerce sales accounted for 15.7 percent of total U.S. retail sales.
  - The share has since declined to 13.3 percent.
- According to preliminary Department of Taxation estimates, sales tax collections attributable to post-Wayfair dealer registrations surged more than 80 percent in FY 2020, while FY 2021 fiscal year-to-date growth is estimated at approximately six percent.

Inflation, Consumer Sentiment Pose Risks

Outlook assumes inflation returns to more normal levels in FY 2023.

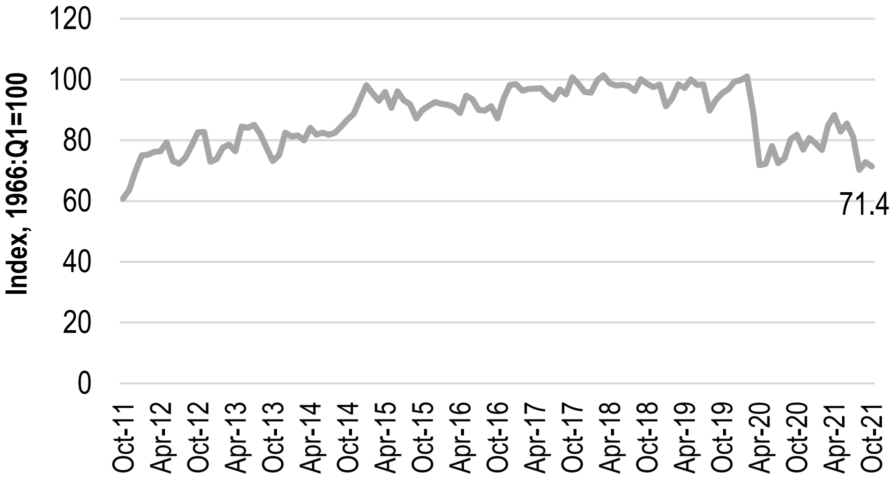
Year-over-year change in Consumer Price Index (CPI)



Source: Federal Reserve Bank of St. Louis; VA Dept. of Taxation; IHS Markit (Oct standard).

Consumer sentiment fell below the pandemic low in October.

University of Michigan: Consumer Sentiment



Source: Federal Reserve Bank of St. Louis; Bloomberg.

- Lower consumer confidence and worse-than-expected inflation pressure may negatively impact revenue collections.

Next Steps

2021 Revenue Forecasting Schedule

- **October 13.** Joint Advisory Board of Economists (JABE) reviewed outlook for the current and next biennium.
- **November 22.** Governor's Advisory Council on Revenue Estimates (GACRE) will review economic and revenue outlook for current and next biennium.
  - Cross-section of leaders from Virginia business and industry, General Assembly leadership.
  - Members review forecast developed by Governor's staff.
- **December 16.** Governor submits revised forecast and proposed amendments to the FY 2022 budget and introduces the 2022-2024 biennial budget.

Conformity to Federal Tax Law – Decisions for the 2022 Session

Income Tax Provisions of the
American Rescue Plan Act (ARPA)

Income Tax Provisions of the American Rescue Plan Act (ARPA)

- The American Rescue Plan Act contains provisions impacting individuals' and businesses' income taxes. Conforming to these provisions would have a negative impact on GF revenues:
  - Income tax exclusion for COVID relief grants to businesses under the federal Restaurant Revitalization Program and the Economic Injury Disaster Loan (EIDL) programs.
  - Earned Income Tax Credit – Temporarily increases the maximum credit for childless taxpayers; eliminates the maximum age and reduces the minimum age at which a childless taxpayer can qualify.
  - Child and Dependent Care Tax Treatment – For tax year 2021, increases the amount of the federal Child and Dependent Care Tax Credit and eligible expenses for child and dependent care, and modifies the phase-out of the credit for higher earners. These changes impact Virginia's Child and Dependent Care Deduction.
  - Employer-Provided Dependent Care – Increases the amount of employer-provided dependent care assistance that can be excluded from an employee's gross income.
  - Student Loan Forgiveness Exemption – Changes the federal income tax treatment of student loan forgiveness in 2021 through 2025 by excluding from gross income the full or partial discharge of student loan debt.

Full Conformity Would Reduce Revenues by More than $100 Million

Provision ($ in millions)	FY 2022	FY 2023	FY 2024
Economic Injury Disaster Loan Advances	($4.0)	$0	$0
Restaurant Revitalization Grants	(6.0)	0	0
Subtotal - Business Provisions*	**($10.0)**	**$0**	**$0**
Earned Income Tax Credit	($32.6)	($0.5)	($0.5)
Child and Dependent Care Tax Credit	(58.4)	0	0
Employer-Provided Dependent Care	(0.5)	0	0
Student Loan Forgiveness Exemption	(0.1)	(0.1)	(0.1)
Subtotal - Individual Provisions	**($91.6)**	**($0.6)**	**($0.6)**
Total	**($101.6)**	**($0.6)**	**($0.6)**

*Revenue estimates of the ARPA tax provisions are preliminary.
Source: VA Department of Taxation.

Note: The SFAC staff Revenue Outlook does not include these potential revenue impacts.

Deductibility of PPP Loans and Rebuild Virginia Grants

Extending the deduction reduces revenues by $51.5 million.

- Virginia conforms to the federal tax exemption for Paycheck Protection Program (PPP) loan forgiveness and Economic Injury Disaster Loan (EIDL) program funding making such funds exempt from state income taxes.
- Virginia also provides an individual and corporate income tax deduction up to $100,000 for business expenses funded by forgiven PPP loan proceeds during tax year 2020 and allows an income tax subtraction for up to $100,000 of grant funds received under the Rebuild Virginia program for tax year 2020.
- Continuing the same tax treatment for tax year 2021 and extending the deduction to fiscal year filers would reduce general fund revenues by $33.5 million in FY 2022 and $18.0 million in FY 2023, according to Department of Taxation estimates (does not account for new $250.0 million ARPA appropriation for Rebuild VA in FY 2022).

2022-2024
Budget Pressures &
2022 Session Outlook

Two Budget Bills

- In even-numbered sessions, action is taken to amend the current year budget (FY 2022) and to adopt a budget for the biennium that starts July 1, 2022.
  - **SB 29 ("Caboose Bill")** – Amends the CURRENT budget (Ch. 552) to reflect the revised revenue estimate, required spending, and any savings in FY 2022.
    - **Goes into effect when signed by the Governor.**
  - **SB 30** – The proposed biennial budget for the next two fiscal years, FY 2023 and FY 2024.
    - **Goes into effect on July 1, 2022.**

Large Adjustments for the Caboose Bill

- Caboose bill agency requests total $314.4 million for FY 2022.
  - Largest requests are in Commerce and Trade, Health and Human Resources, and Transportation.
- K-12 adjustments include lower fall membership, Lottery proceeds offset, and increased sales tax revenue.
- Positive Medicaid forecast adjustment of almost $653.7 million was unanticipated and related to the pandemic.
- Staff identified mandatory and high-priority items of almost $1.3 billion in the current fiscal year ($977.5 million are for one-time items).
- Additional resources from the SFAC staff revenue forecast are $3.3 billion in FY 2022.

FY 2022 GF Caboose Adjustments ($ in millions)	
Caboose Agency Requests/Other Agency	($314.4)
K-12 Adjustments	128.1
Medicaid Forecast Update	653.7
Children's Health Insurance Forecast	11.3
Health Care Fund Offset	92.5
Approved MEI Projects	(10.0)
SFAC Staff Identified Major Budget Pressures, Commitments, and High-Priority Items	(1,281.5)
Additional Revenue (SFAC staff estimate)	3,333.8
Total	**$2,613.5**

Note: In FY 2022, Virginia has to maintain appropriations for K-12 at 29.9 percent and higher education at 9.0 percent relative to overall GF spending for federal MOE requirements.

Calculating the Base Budget

- **Base budget** = cost of maintaining **current** services and caseloads (FY 2022 appropriation).
- **One-time** spending items are **deducted** from the base year budget (e.g. cash reserve deposits).
- On-going items that are **not fully funded** in FY 2022 are **added** to the base (e.g. new position costs, partial-year items).

2022-24 GF Base Budget Calculation ($ in millions)	
Ch. 552, FY 2022 GF Approp. x 2	**$50,512.0**
Minus: One-time Spending/Savings	(1,919.3)
Plus: Technical Adjustments	(5.9)
Total, Adjustments to Base	**(1,925.2)**
Biennial (Two-Year) GF Base	**$48,586.8**

Developing the 2022-24 Budget

Projected Resources Compared to the Base Budget

($ in millions)	FY 2023	FY 2024	2022-24
SFAC Projected GF Resources	$27,888.6	$29,054.7	$56,943.3
GF Adjusted Base Budget	(24,296.8)	(24,290.0)	(48,586.8)
Resources Above Base	**$3,591.8**	**$4,764.7**	**$8,356.5**

Agency Requests Total $4.6 billion for 2022-24 Biennium

Secretarial Area ($ in millions)	FY 2023	FY 2024
Administration	$58.7	$72.4
Agriculture & Forestry	15.1	6.0
Commerce & Trade	216.5	182.2
Education	780.5	1,054.9
Executive Offices	7.8	9.8
Finance	0.7	0.7
Health & Human Resources	595.3	739.5
Independent Agencies	3.9	3.9
Judicial	15.6	15.6
Labor	7.2	3.7
Natural Resources	257.6	228.5
Public Safety & Homeland Security	148.5	159.8
Veterans & Defense Affairs	11.1	8.3
Grand Total	**$2,118.6**	**$2,485.2**

Source: Department of Planning and Budget, Agency Operating Requests.

- Agency requests total more than $4.6 billion for the biennium.
- This does not include:
  - Medicaid Forecast;
  - K-12 Rebenchmarking; or
  - Costs for an across-the-board salary increase for state and state-supported local employees.

Outstanding Debt and Capital Outlay Requests

GF/Tax Supported Debt Capital Project Requests 2022-24 Biennium		
Secretarial Area ($ in millions)	**Total Project Requests**	**GF Portion**
Education	$4,143.4	$4,017.0
Administration	825.5	272.0
Natural and Historical Resources	644.1	260.0
Transportation	266.0	266.0
Public Safety and Homeland Security	213.6	213.6
Veterans and Defense Affairs	111.4	0.0
Health and Human Resources	100.8	51.3
Agriculture and Forestry	9.0	0.0
Commerce and Trade	4.0	4.0
Total	**$6,317.8**	**$5,083.9**

Source: Department of Planning and Budget, Agency Capital Requests.

- Outstanding Tax-Supported Debt - 9(b), 9(c), and 9(d), totals $11.7 billion.
  - $1.2 billion is General Obligation Debt.
  - $10.5 billion is appropriation-backed 9(d).
- Authorized but unissued debt totals $6.5 billion.
- GF capital requests total $20.0 million for the caboose bill.
  - Largely supplements for ongoing projects or life/safety needs.

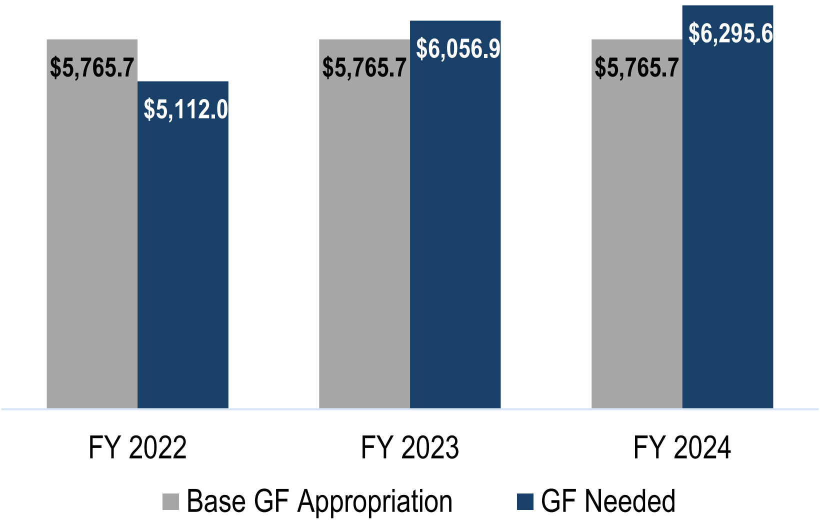
Major Budget Pressures/Commitments

2022-24 Funding Commitments/Budget Pressures ($ in millions)	FY 2023	FY 2024
Enhanced Nutrient Reduction Certainty Program (SB1354)/Combined Sewer Overflow	$700.0	$0
Capital Outlay – Existing Pool Supplement	200.0	0
Medicaid – Developmental Disability Waivers (rates and 3,500 slots)	175.1	232.9
VA State Police, Department of Corrections, and Sheriff's Compensation Proposals	167.7	170.8
School Counselors and Additional Specialized Student Support Position	104.2	105.0
Stormwater Local Assistance Fund	100.0	0
State Mental Health Bed Census Reduction	92.5	70.2
Housing Trust Fund Deposits	70.0	120.0
State Behavioral Health Facility Compensation and Staffing	62.2	141.9
Reduce Virginia Retirement System Liabilities	60.0	60.0
One Percent State Employee and State-Supported Local Salary Increase	49.9	50.8
One Percent Teacher Salary Increase	49.2	49.2
Higher Education – One-Time Affordability and Undergraduate Financial Aid	48.0	48.8
Community Behavioral Health	45.8	81.7
Medicaid Dental Rates	40.5	44.4
Other High Priority Needs/Requests	518.8	701.9
TOTAL	**$2,483.9**	**$1,877.6**

Medicaid Forecast Reflects COVID-19 Disruption in Utilization and Temporary Federal Actions to Support the Program

Forecast projects $653.7 million in GF savings for FY 2022 and $821.2 million GF needed to fund the 2022-24 Biennium.

($ in millions)



- The net GF savings of **$653.7 million in FY 2022** is due to:
  - One-time savings from the higher federal match rate for one additional quarter in FY 2022 and the temporary enhanced match rate for home and community-based services.
  - Lower than projected managed care rates and less than projected growth in population and utilization.
- The Medicaid Forecast projects an additional need of **$821.2 million GF in the 2022-24 biennium**.
  - Reflects unwinding of higher enrollment due to the federal requirement to continue health care coverage to receive the enhanced federal matching rate in FY 2023; however, enrollment resumes an upward trend in FY 2024.
  - Includes typical cost increases for managed care rates and inflation for hospitals and nursing facilities.
- The Forecast anticipates overall Medicaid spending will increase:

	FY 2022	FY 2023	FY 2024
Current Forecast	**12.6%**	**1.0%**	**5.4%**
Last Year's Forecast	7.5%	7.9%	N/A

Budget Outlook 2022 Session

Comparing projected resources to spending needs

- Available resources from the economic forecast are more than sufficient to cover major budget pressures. However, there are many other items that would typically be considered.

2022-24 Budget Outlook

($ in millions)	FY 2023	FY 2024	2022-24
SFAC Staff Projected GF Resources	$27,888.6	$29,054.7	$56,943.3
GF Base Budget	(24,296.8)	(24,290.0)	(48,586.8)
Resources Above Base	$3,591.8	$4,764.7	$8,356.5
Less: Medicaid Forecast	(291.3)	(529.9)	(821.2)
Less: Children's Health Insurance Forecast	(21.4)	(31.1)	(52.5)
Less: K-12 Rebenchmarking	(92.1)	(140.9)	(233.0)
Less: Major Budget Pressures/Commitments/High Priorities	(2,483.9)	(1,877.6)	(4,361.5)
Net Available Resources*	**$703.1**	**$2,185.2**	**$2,888.3**

*Does not include estimated balances or additional forecast amounts from FY 2022, total available resources could be $2.6 billion or higher in one-time resources.

Possible Funding Commitments/Priorities

- **Salary Increases** – A one percent increase for all groups (classified state employees/state-supported local employees, teachers, and faculty) = approximately $100.0 million per year before additional adjustments to specific groups (with inflation, investments may need to be higher).
- **HHR Issues** – Medicaid: additional adjustments and provider rates; other initiatives to relieve pressure on mental health beds in state hospitals, reinsurance program, etc.
- **Education Initiatives** – State Board of Education SOQ revisions, pre-K, and other support for students and teachers.
- **Higher Education** – SCHEV recommendations = $700.9 million over the biennium.
- **Public Safety** – Additional inmate healthcare investments and ways to address staffing issues.
- **Capital Outlay** – Deferred maintenance, previously planned projects, and additional cash for capital.
- **Natural Resources** – Land conservation, nutrient reduction, dam safety, and state park maintenance and operations.

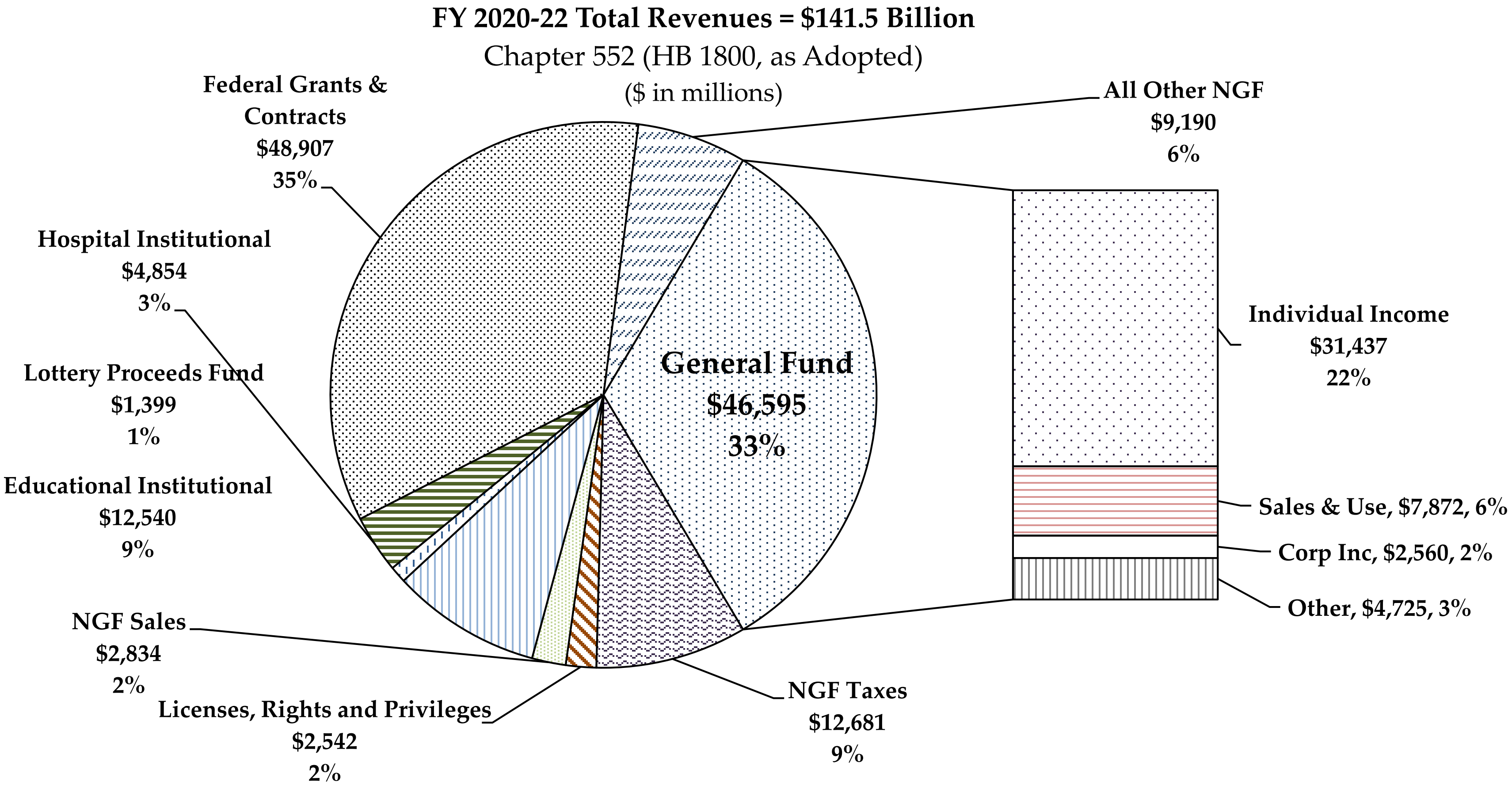
Outlook and Considerations – 2022 Session

- Substantial additional GF resources will be available above what was assumed in Chapter 552 (Special Session I).
- Structural balance will continue to be a concern and must be considered as the past several years have seen trends that are not part of a normal economic cycle.
  - The Medicaid Forecast estimates savings of $653.7 million for FY 2022 related to the enhanced federal match rate for the program and atypical utilization patterns due to the pandemic. The Forecast has a projected increase in program spending of $821.2 million for the 2022-24 biennium; however, the actual future costs could vary greatly.
  - K-12 SOQ costs are lower than expected and reflect enrollment fluctuations related to the pandemic; risks for volatile cost increases if a surge in enrollment occurs. Additional GF spending in K-12 will be needed to meet MOE requirements for federal education relief funds.
- Operating budget requests for agencies total almost $4.6 billion for the biennium.
  - Staff analysis of major budget drivers anticipate needs of $4.4 billion for must-do/high-priority and one-time items.
- Economic uncertainty is still present and is related to a number of factors including:
  - Possible resurgence of COVID-19, inflation risks, supply chain disruptions, workforce/labor market factors and uneven recovery for certain industries.
- May want to consider additional funding for one-time items and maximize reserves to hedge against future economic adjustments (cash for debt/deferred maintenance, pay down VRS/other commitments, unwind AST, and programs such as broadband and housing).

Appendix

Virginia's Budget

Revenue Sources:



Virginia's Budget

How GF Resources are Used: