Virginia Issues Year-End Revenue Report

Total General Fund revenue collections increased 2.0% over prior year, but $236.5 million below official forecast

RICHMOND—Governor Ralph Northam today announced that Virginia ended fiscal year 2020 with a deficit of approximately $236.5 million in general fund revenue collections. While the shortfall was expected due to the impacts of COVID-19 on the state's economy and budget, it is smaller than anticipated, and overall, revenues increased 2.0 percent over fiscal year 2019.

"COVID-19 has created both a health crisis and an economic crisis, and we have to box in this virus before we can fully address its fiscal impacts," **said Governor Northam**. "While I am pleased that our revenue shortfall is less than initially expected, we know this pandemic will continue to negatively affect our state's finances as long as this virus is with us. We must all keep taking steps to protect public health so we can continue our economic recovery and ensure the Commonwealth remains on strong financial footing."

Total revenue collections rose by 2.0 percent in fiscal year 2020, behind the forecast of 3.1 percent growth. The main drivers of the revenue shortfall were payroll withholding and sales taxes—these two sources contributed $351.5 million to the deficit. Nonwithholding income tax payments—mainly from 2019 tax returns—were on target and income tax refunds contributed positively to the bottom line revenues by $146.3 million. Total revenues were $3.1 billion in June, a 26.7 percent increase, as the due date for payments from individuals and corporations was extended to June 1.

"While this is good news as it relates to the final fiscal year 2020 projected shortfall, I am concerned that payroll withholding fell 2 percent and retail sales declined by 7 percent for the months of April, May, and June contributing to a $496.5 million shortfall in the fourth quarter," **said Secretary of Finance Aubrey Layne**. "We were helped by prior year income tax payments and current year payroll withholding and sales tax revenues not falling as much as initially anticipated. But the fact remains, the Commonwealth has had a significant contraction in jobs and those effects on payroll withholding and the ability for consumers to spend is an obvious concern going forward into fiscal year 2021 for the state budget."

In reviewing the State Comptroller's report on the preliminary revenue shortfall, the Commonwealth will conduct an interim forecasting process with an updated economic and revenue outlook for fiscal years 2021 and 2022. These forecasts will be released on August 18 at the Joint Money Committee meeting.

Analysis of Fiscal Year 2020 Revenues

Based on Preliminary Data

- Total general fund revenue collections, excluding transfers, fell short of the official forecast (Chapter 1283) by $236.5 million (1.1 percent variance) in fiscal year 2020.
    - The 30-year average general fund revenue forecast variance is plus or minus 1.6 percent.

- Payroll withholding and sales tax collections, 85 percent of total revenues, and the best indicator of current economic activity in the Commonwealth, finished $351.5 million or 2.1 percent behind the forecast.
    - Payroll withholding growth of 3.0 percent was behind the forecast of 4.7 percent growth.
    - Sales tax collections increased 3.5 percent as compared to the annual forecast of 7.4 percent.
    - Fourth quarter results show that payroll withholding fell 2.0 percent and sales tax revenues fell 7.0 percent.

- Nonwithholding income tax collections finished the year in line with expectations, down 4.3 percent. 2019 tax year final payments due June 1 were ahead of expectations; however, estimated payments due in June for 2020 were below expectations.

- Individual income tax refunds were a positive to the forecast, as the average check size did not increase. Tax refunds were $146.3 million below expectations and is a positive to the bottom line.

- Corporate income tax collections increased 7.2 percent for the year, behind the annual forecast of 9.3 percent mainly due to the lower than expected payments in the April to June period.

- A complete analysis of all final receipts for revenue sources, including transfers, will not be available until the Joint Money Committee meeting on August 18.