

COUNTY OF YORK

MEMORANDUM

DATE: November 19, 2024
TO: York County Board of Supervisors
FROM: Mark L. Bellamy, Jr., County Administrator
SUBJECT: Current Status of State Finances

A handwritten signature in blue ink, appearing to be 'MLB', is written over the 'FROM' line of the memorandum.

During the VACo Conference that took place last week, there was a session titled “*Where Do State Finances Stand Today? What Can the State Afford to Fund?*” As an attendee, I found the information quite interesting, with insights suggesting that the state’s financial status is generally strong. Attached is a copy of the materials distributed to the participants.

Attachment:

- PowerPoint Presentation

Where Do State Finances Stand Today?

What Can the State Afford to Fund?

Virginia Association of Counties

Fiscal Analytics, Ltd.

November 11, 2024

State Finances Are Quite Healthy

- Fourth year in a row of a large GF revenue surplus above the adopted budget (\$1.2 bil. in FY 2024). Therefore, the revenue base is much higher than assumed in the adopted budget.
- Positive wage and salary growth currently expected in Virginia for the 2024-26 biennium.
- \$4.7 billion in mandatory and voluntary GF reserves (17.4% of the GF)
- Virginia Retirement System finances have improved
- Significant unused debt capacity available
- An adopted 2024-26 budget that already funds most *mandatory* requirements, **except much higher Medicaid costs** are being forecast.

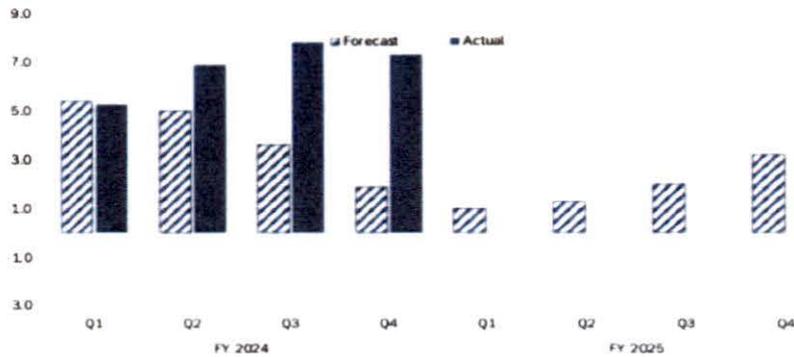
Conclusion: Good chance to increase ongoing state funding commitments – albeit tempered with a need to control health care costs.

Expect at Least \$3 Bil. in Additional GF Revenues for the 2024-26 Biennium Budget

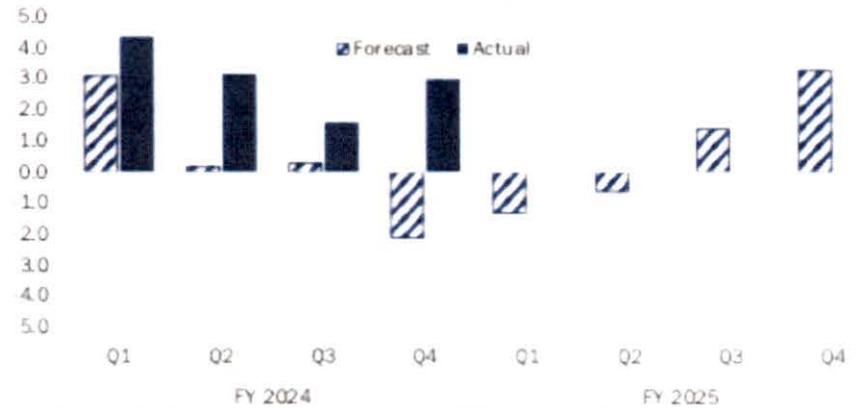
- About \$500 mil. in new spending available from \$1.2 bil. FY 2024 surplus (after \$460 mil. in contingent appropriations and mandatory deposits for WQIF and \$175 mil. for I-81).
- Revenue forecast should increase by *at least* \$2.5 - \$3.0 billion due to higher FY 2024 revenue base. For example, 3 percent GF revenue growth in FY 2025 would produce \$1.8 bil. in additional GF revenue and 2 percent growth in FY 2026 would produce \$700 mil in additional revenue above the current budget forecast.
- New revenue forecast should assume continued economic growth. Inflation is slowing toward 2 percent. Consumer spending and personal income continue to grow at a healthy pace. FY 2024 Virginia wage and salary growth was over 6 percent. Consensus expectations are that wage and salary growth will slow to about 5 percent in FY 2025 and 4 percent in FY 2026.
- However, don't be surprised if the introduced budget makes a conservative economic and revenue forecast. Forecasting the economy is fraught with uncertainty and the forecast for income tax non-withholding is always difficult!
 - Strong stock market portends healthy non-withholding income tax revenues.
 - Keep a close eye on the labor market for recession clues – particularly watching trends in construction employment and unemployment claims.

Economic Growth Continues to Perform Better Than Expected in Current Budget

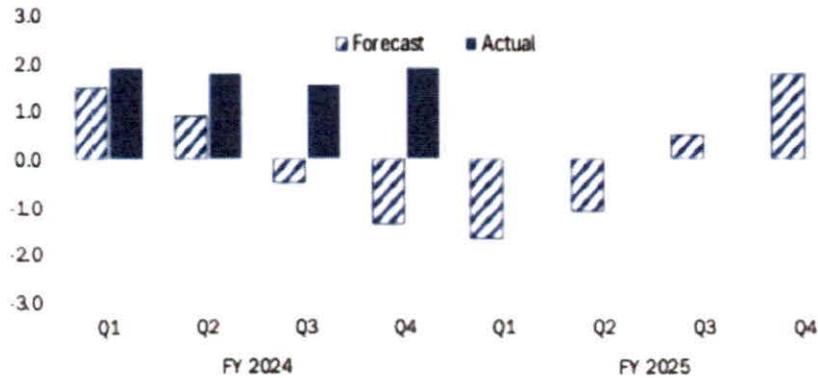
Virginia Wages & Salaries, Actual vs GACRE Forecast, Y/Y Percent Change, SAAR (%)



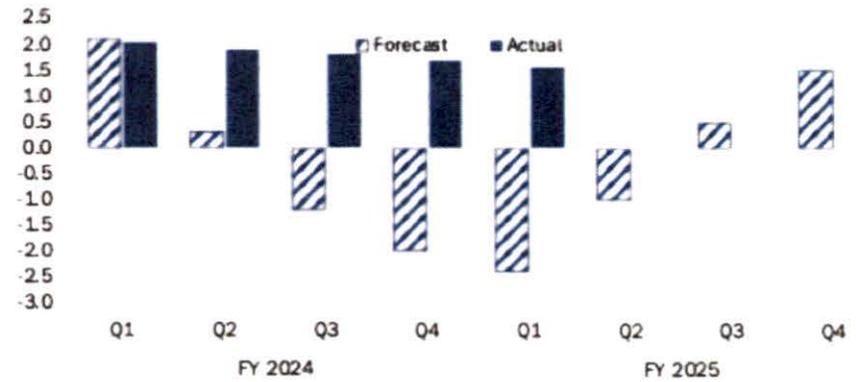
Real GDP Growth, Actual vs GACRE Forecast, Percent Change, SAAR (%)



Virginia Payroll Employment, Actual vs GACRE Forecast, Y/Y Percent Change, SA (%)



U.S. Payroll Employment, Actual vs GACRE Forecast, Y/Y Percent Change, SA (%)



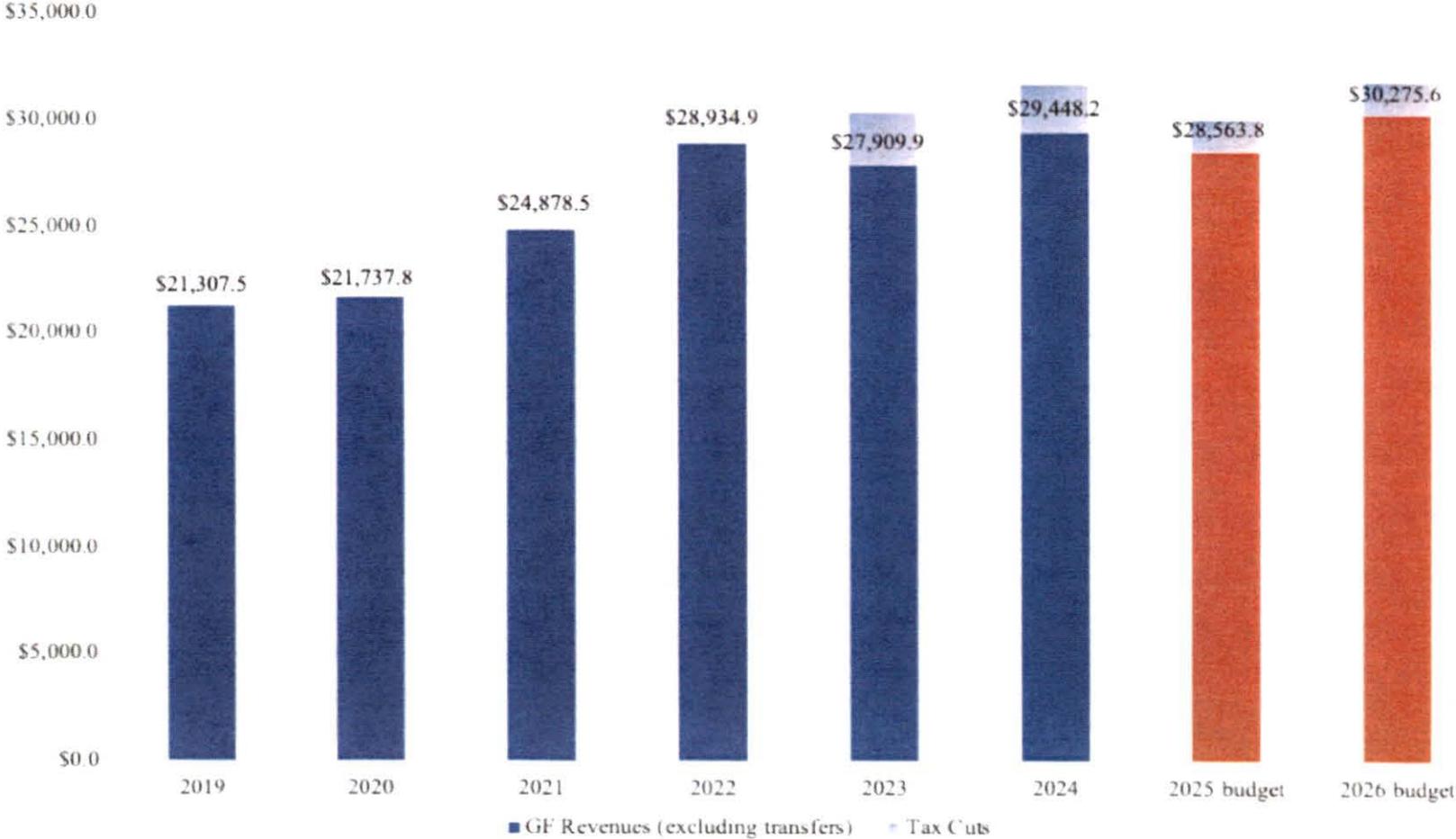
YTD GF Revenue Growth Points to Continued Strong Revenues

	<u>FY 2025 YTD Sept.</u>	<u>FY 2024 YTD Sept.</u>	<u>% Change</u>
<i>Withholding</i>	\$4,032,400	\$3,822,115	5.5%
<i>Estimated Pay/Tax Dues</i>	\$1,346,866	\$1,000,017	34.7%
<i>Refunds</i>	<u>-\$338,763</u>	<u>-\$443,511</u>	<u>-23.6%</u>
Net Individual Income	\$5,040,503	\$4,378,621	15.1%
Sales Taxes	\$1,206,874	\$1,189,264	1.5%
Corporate Income	\$406,921	\$516,177	-21.2%
Recordation	\$115,188	\$104,387	10.3%
Interest	\$349,532	\$327,706	6.7%
All Other	<u>\$168,895</u>	<u>\$115,369</u>	<u>46.4%</u>
Total GF Revenue	\$7,287,913	\$6,631,524	9.9%

Note: Current 2024-26 budget expects negative 3 percent GF revenue growth compared to FY 2024 actual

Expect FY 2025 and FY 2026 GF Revenues to Be Significantly Higher than Budgeted

Actual and Budgeted General Fund Revenues



How Does the State Spend Its General Fund?

Adopted State 2024-26 GF Budget (\$ Mil.)

	<u>Ch. 1</u> <u>FY 2023</u>	<i>Ch. 1</i> <i>FY 2024</i>	<u>Ch. 2</u> <u>FY 2025</u>	<i>Ch. 2</i> <i>FY 2026</i>	BIENNIUM <u>CHANGE</u>
Legislative and Executive	\$173.8	\$176.0	\$216.6	\$196.3	\$63.1
Judicial Dept.	\$582.0	\$589.6	\$653.1	\$660.0	\$141.5
Administration/Comp Bd	\$886.3	\$893.2	\$996.5	\$986.4	\$203.4
Treasury Board Debt Service	\$954.2	\$973.1	\$1,019.0	\$1,053.9	\$145.6
Other Finance /VRS Deposit	\$430.0	\$174.2	\$189.2	\$183.4	-\$231.6
Rainy Day/Revenue Reserve	\$1,127.7	\$695.6	\$0.0	\$0.0	-\$1,823.3
Car Tax Reimbursement	\$950.0	\$950.0	\$950.0	\$950.0	\$0.0
Commerce and Trade/Labor	\$590.1	\$809.7	\$519.8	\$519.8	-\$360.2
Agriculture / Nat. Resources	\$636.1	\$933.7	\$701.8	\$292.9	-\$575.1
K-12 DIRECT AID/DOE	\$9,224.1	\$9,009.7	\$9,764.0	\$9,913.6	\$1,443.8
Higher & Other Education	\$2,960.3	\$3,279.7	\$3,723.9	\$3,726.1	\$1,210.0
DMAS Medicaid	\$5,540.8	\$5,596.3	\$6,569.6	\$6,938.7	\$2,371.2
Other Health & HS	\$2,615.4	\$2,901.3	\$3,251.8	\$3,243.0	\$978.1
Public Safety & Veterans/HS	\$2,504.3	\$2,559.0	\$2,724.7	\$2,680.6	\$342.0
Transportation	\$51.5	\$260.0	\$215.5	\$110.0	\$14.0
Central Appropriations	\$451.1	\$810.5	\$253.1	\$431.1	-\$577.4
Independent Agencies/Capital	<u>\$2,064.6</u>	<u>\$429.9</u>	<u>\$727.9</u>	<u>\$338.2</u>	<u>-\$1,428.4</u>
Total GF Appropriations	\$31,742.3	\$31,041.5	\$32,476.5	\$32,224.0	\$1,916.7

Note: K-12 Direct Aid in the 2024-26 biennium includes \$494 mil. in pre-k child-care funding.

K-12 Spending Items Expanded in the 2024-26 Biennium Budget

- 3% salary increase each year *for state share* of SOQ instructional and support positions (localities must provide at least 1.5% for prorated share): \$546 mil.
- Expand at-risk add-on and combine with the Prevention, Intervention, Remediation (PIR) program per JLARC recommendation: \$371 mil.*
- Improve English learner staffing standards: \$72 mil.
- Expand reading specialist staffing standard: \$61 mil.
- \$80 mil. each year into school construction fund from casino revenues
- Authorizes \$200.0 million in FY 2025 and \$50.0 million in FY 2026 in literary fund school construction loans. Language also requires interest rates for these loans to be discounted yet responsive to market rates.

Child Care:

- Use GF support for child-care subsidy program after federal funding expires: \$436 mil.
Use GF to support mixed delivery services after federal funding expires: \$58 mil.

* These payments shall be distributed based on the estimated number of At-Risk students, based on (1) the most recent three-year average Identified Student Percentage, applying a 1.25 multiplier factor, and (2) including one quarter of students identified as English language learners. The At-Risk Program shall provide each school division the state share of an 11.0 percent basic-aid add-on per estimated At-Risk student. In addition, the program shall provide each school division the state share of a payment equal to a 0.0 to 37.0 percent basic-aid add-on per estimated At-Risk student, with each school division's add-on percentage determined based upon the school division's concentration of At-Risk students relative to all other school divisions.

Major Health and Human Services Spending Items in the 2024-26 Biennium Budget

- Fund Medicaid utilization and inflation: \$714 mil.
- Adds 3,440 developmental disability waiver slots and increase waiver rates by 3% per year: \$191 mil.
- Fund Children Services Act forecast: \$97 mil.
- Expand health/behavioral health workforce programs: \$48 mil.
- Fund family access to medical insurance security utilization and inflation: \$47 mil.
- Fund DBHDS salary alignments for clinical roles and food and environmental staff at state facilities: \$40 mi.
- Fund additional mental health crisis services: \$26 mil.
- Address TANF shortfall in discretionary programs: \$21 mil.

Other Major Spending Items in the 2024-26 Biennium Budget

- Capital outlay maintenance reserve and supplemental and equipment pool deposits - \$830 mil.
- 3% salary increase for state and state-supported employees - \$545 mil.
- Higher education: access and affordability - \$205 mil.; Military Survivor & Dependents waiver and stipend - \$44 mil.; Financial Aid - \$42 mil.; support for merger of ODU/EVMS - \$37 mil.
- Additional WMATA support - \$145 mil.
- Hampton Roads toll relief - \$101 mil.
- Interstate 81 Corridor project - \$70 mil.
- Additional funding for Richmond combined overflow project - \$58 mil.; Bristol landfill remediation - \$26 mil.; Norfolk coastal storm risk management project - \$21 mil.
- Additional \$20 mil. for Aid to Police (HB 599)

Note: For a complete description of the adopted 2024-26 budget see:

<https://hac.virginia.gov/documents/2024/HAC%20Staff%20Post%20Session%20Budget%20Summary%20of%20HB%206001%20Document%205-31-24.pdf>

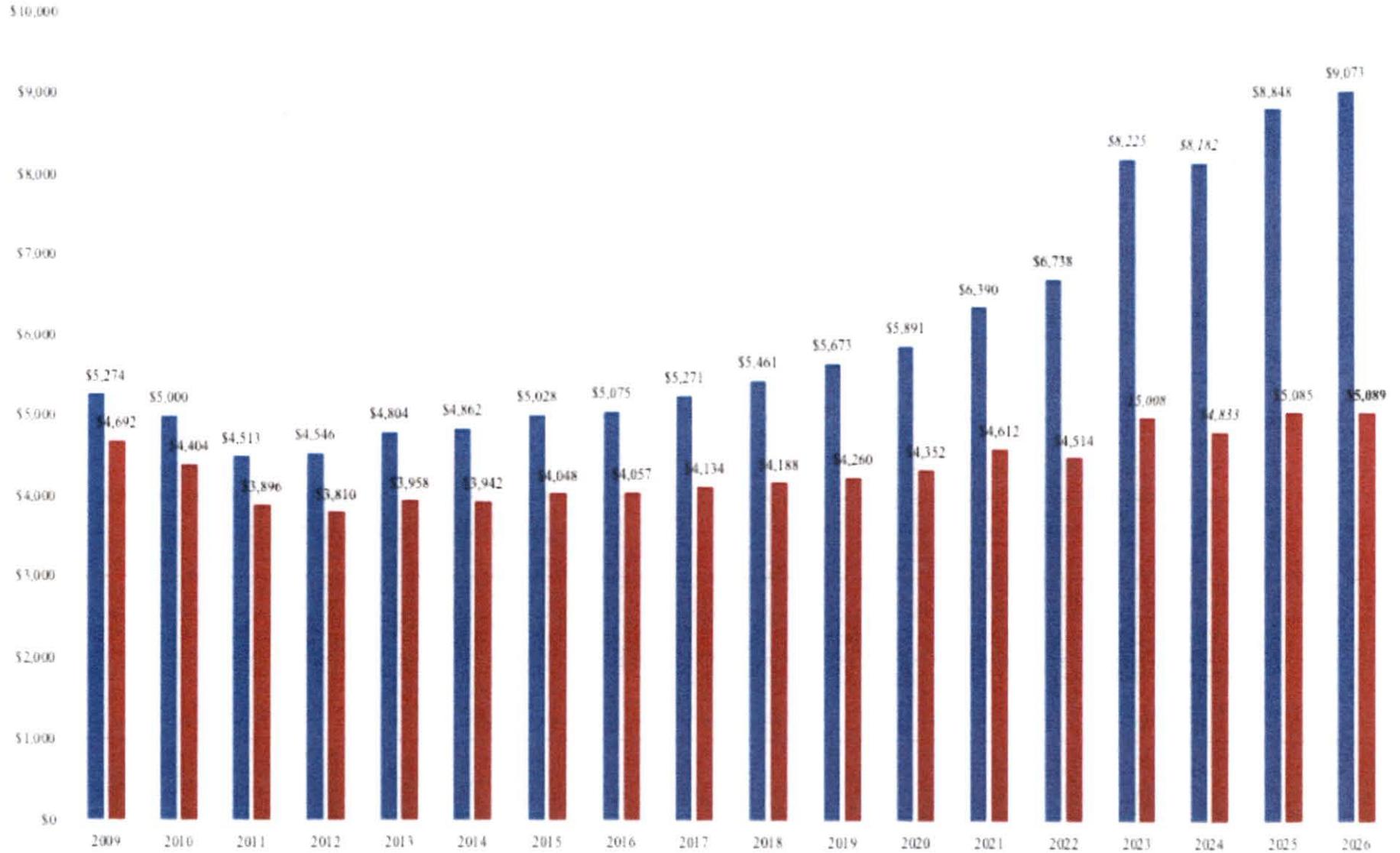
State Direct Aid to K-12 Has Grown by Average Amounts Over Time

	<u>FY 2001</u>	<u>FY 2014</u>	<u>FY 2025</u>	<u>% Growth FY 2001-25</u>	<u>% Growth FY 2014-25</u>
Medicaid (DMAS)	\$1,384.2	\$3,519.8	\$6,569.6	474.6%	86.6%
Natural Resources	\$152.1	\$144.0	\$701.8	461.4%	387.4%
GF Debt Service	\$243.1	\$608.5	\$1,019.0	419.2%	67.5%
Other H&HS	\$1,079.1	\$1,541.5	\$3,251.8	301.3%	111.0%
Direct Aid to K-12 Education	\$3,942.4	\$5,292.7	\$9,764.0	247.7%	84.5%
Higher Education	\$1,634.2	\$1,782.1	\$3,723.9	227.9%	109.0%
Public Safety/Comp Board	\$1,949.1	\$2,353.1	\$3,721.2	190.9%	58.1%
All Other	<u>\$1,899.4</u>	<u>\$2,463.5</u>	<u>\$3,725.2</u>	<u>196.1%</u>	<u>51.2%</u>
Total GF Operating	\$12,283.6	\$17,705.2	\$32,476.5	264.4%	83.4%

State Funding to Localities' Trends

	GF State Aid to Localities (\$ Mil.)						
	<u>FY 2009</u>	<u>FY 2014</u>	<u>FY 2018</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Direct Aid to K-12	\$5,607.6	\$5,240.3	\$5,963.0	\$9,144.0	\$8,928.1	\$9,671.0	\$9,822.7
K-12 % of Total GF Appropriations	35.2%	29.6%	29.2%	28.8%	28.8%	29.8%	30.5%
Health and Human Services	888.4	791.7	951.0	1,217.5	1,363.2	1,505.2	1,507.4
<i>CSA</i>	<i>299.7</i>	<i>217.2</i>	<i>279.9</i>	<i>330.7</i>	<i>367.0</i>	<i>\$380.6</i>	<i>380.6</i>
<i>Community MH/SA Services</i>	<i>249.4</i>	<i>269.3</i>	<i>350.4</i>	<i>497.2</i>	<i>604.6</i>	<i>682.9</i>	<i>687.2</i>
<i>Local Social Services Staff</i>	<i>117.4</i>	<i>115.3</i>	<i>122.1</i>	<i>148.5</i>	<i>151.3</i>	<i>173.0</i>	<i>173.0</i>
<i>Community Health Programs</i>	<i>117.6</i>	<i>107.2</i>	<i>117.9</i>	<i>149.4</i>	<i>152.6</i>	<i>182.6</i>	<i>180.6</i>
<i>Welfare Services and Programs</i>	<i>104.3</i>	<i>82.7</i>	<i>80.7</i>	<i>91.7</i>	<i>87.7</i>	<i>86.1</i>	<i>86.0</i>
Public Safety	734.3	687.9	738.8	877.8	895.4	965.5	957.5
<i>Local Sheriffs Offices</i>	<i>406.1</i>	<i>411.3</i>	<i>452.4</i>	<i>565.7</i>	<i>583.3</i>	<i>641.6</i>	<i>633.6</i>
<i>Local Police Depts HB 599</i>	<i>197.3</i>	<i>172.4</i>	<i>178.0</i>	<i>210.8</i>	<i>221.7</i>	<i>229.7</i>	<i>229.7</i>
<i>Local Jail Per diem</i>	<i>80.1</i>	<i>59.4</i>	<i>61.3</i>	<i>50.8</i>	<i>39.9</i>	<i>43.7</i>	<i>43.7</i>
<i>Assistance for Juvenile Justice</i>	<i>50.8</i>	<i>44.8</i>	<i>47.1</i>	<i>50.5</i>	<i>50.5</i>	<i>50.5</i>	<i>50.5</i>
Econ. Dev/Housing/Libraries/Envir.	54.7	56.0	89.2	274.8	250.0	225.9	225.9
Constitutional Officers	155.3	145.8	158.0	188.5	196.5	231.2	230.2
Dept. of Accounts Transfers	49.3	49.3	49.6	30.4	30.4	30.4	30.4
Car Tax	950.0	950.0	950.0	950.0	950.0	950.0	950.0
Aid-to-Locality Reduction	(50.0)	-	-	-	-	-	-
Total Local GF Aid	\$8,389.6	\$7,921.0	\$8,899.6	\$12,683.0	\$12,613.6	\$13,579.2	\$13,724.1
Total GF Appropriations	\$15,943.0	\$17,705.2	\$20,449.9	\$31,742.3	\$31,041.5	\$32,476.5	\$32,224.0
Local Aid % of Total GF	52.6%	44.7%	43.5%	40.0%	40.6%	41.8%	42.6%

Adopted Budget State Per Pupil K-12 Direct Aid Funding Nominal and Inflation-Adjusted (CPI \$2005)



Reviewing JLARC K-12 Recommendations

According to JLARC, the “State SOQ formula yields substantially less funding than actual division spending and benchmarks.” Using FY 2022 data, the study found that Virginia school divisions receive 14 percent less (\$1,900 per student) than the 50-state average. Implementing all JLARC recommendations costs about \$3.5 billion per year.

- The state SOQ only recognizes 2/3 of actual staff employed by school divisions, with the single largest unrecognized staff category being teacher aides. **(\$1.86 billion/yr.)**
- The need to cover all higher cost-of-living school divisions with a newer, more accurate cost adjustment. **(\$595 mil./yr.)**
- The need to use a re-benchmarking process that covers real-time school division costs. **(\$490 mil./yr.)**
- The prevailing salary cost methodology assumes every school district has equal weighting in the formula, thus skewing SOQ recognized salaries toward lower rural small division salaries rather than much more numerous teacher large division salaries. **(\$190 mil./yr.)**
- Not restoring the temporary cuts adopted during the 2009 recession, including the support position cap, certain non-personal expenses, and the federal deduct calculation. **(\$116 mil./yr remaining support cap + \$150 mil. other)**
- Inadequate state support for more difficult to educate students, including economically-disadvantaged, English language learners, and special education students. **(Adopted in 2024-26 budget \$250 mil./ yr.)**
- Not recognizing the lack of economies of scale and more support needed in small school divisions. **(\$90 mil. /yr.)**

K-12 Student-Based Funding Model

- **JLARC: A well-designed student-based funding model would be more accurate, more transparent, and easier to maintain over time than Virginia's current staffing-based formula. Implementing a student-based funding formula was estimated to cost \$1.2 billion above FY23 funding.**
- JLARC envisions a student-based funding formula starting with the historical cost to educate an average student by school division. Adjustments are then made for cost-of-living, economies of scale and higher cost to educate students (e.g., at-risk, special education, and English learner students). State/local ability to pay is also a factor in the shared cost.
- A student-based formula uses per-student cost assumptions and student enrollment to calculate the total funding obligation. These per student cost assumptions include all staffing and non-staffing costs associated with providing instruction and support, so no additional calculations are needed.
- The vast majority of states (34) use a student-based funding formula that allocates divisions a specified amount of funding per student. Seven states use hybrids of the staffing- and student-based approaches or another approach.
- *In contrast*, staffing-based formula calculations (such as Virginia) are much more complicated. Staffing-based models require numerous calculations to determine funded staff levels. Second, additional calculations determine the cost of compensating those staff. Then non-staffing costs must be added to determine the total funding obligation.

Other Potential New 2024-26 Funding Requests

- Additional teacher salary increases cost \$91 million per 1 percent increase per year (currently state SOQ funded at 3%).
- State and state-supported local employee salary increases cost \$91 million per 1 percent increase per year (currently state funded at 3%).
- A new Medicaid forecast calling for \$641 million in additional funding (over \$300 million in ongoing cost increases). Much higher post-pandemic enrollment than previously expected, as well as higher Medicare reimbursements. Also, expect requests for Medicaid funded provider rate increases and additional waiver slots.
- Additional funding requests for mental health care improvements – although significant sums have recently been provided that need to be absorbed.
- Expect Children’s Services Act sum sufficient pool fund increases of \$35 mil. per year
- Calls for higher education financial aid increases and backfill funding for higher ed military tuition reduction losses (\$45 million/yr in contingency funding already in budget).
- Requests to scale up community college career and technical education programs
- Additional childcare funding requests
- Capital outlay and maintenance reserve requests.
- Economic development site readiness funding.
- Additional Metro aid.
- Climate resiliency funding. Hurricane disaster relief?

Should Virginia Increase Taxes
to Fund JLARC Identified K-12
Obligations - Or Cut Taxes to Better
Compete With Other States?

Recent Tax Reductions in Virginia

Recent Adopted Major Tax Policy Reductions Impacting Revenue Estimates**

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Standard Deduction Increases	\$1,015.8	\$755.5	\$821.1	\$833.4
Refundable Earned Income Tax Credit	\$159.0	\$156.0	\$159.6	\$155.0
Income Tax Subtraction on Military Benefits	\$145.0	\$193.8	\$215.4	\$229.1
Eliminate Sales Tax on Groceries and Personal Hygiene	\$115.0	\$267.2	\$272.5	\$273.6
All Other Changes	\$15.3	\$21.2	\$33.9	\$35.3
Tax Rebate	\$1,048.6	\$906.8		
Total	\$2,498.7	\$2,300.5	\$1,502.5	\$1,526.4

** August 14, 2024 Joint Money Committee Presentation

Virginia is Still a Low Tax State When Considering Wealth With Tax Levels

	2014 JLARC Ranking	2024 JLARC Ranking	Trend
Per Capita Personal Income	10	12	lower
Per Capita State Taxes	34	23	higher
Per Capita Local Taxes	15	15	neutral
Per Capita State & Local Taxes	25	20	higher
State and Local Revenue as a Percent of Personal Income	46	42	still low tax state

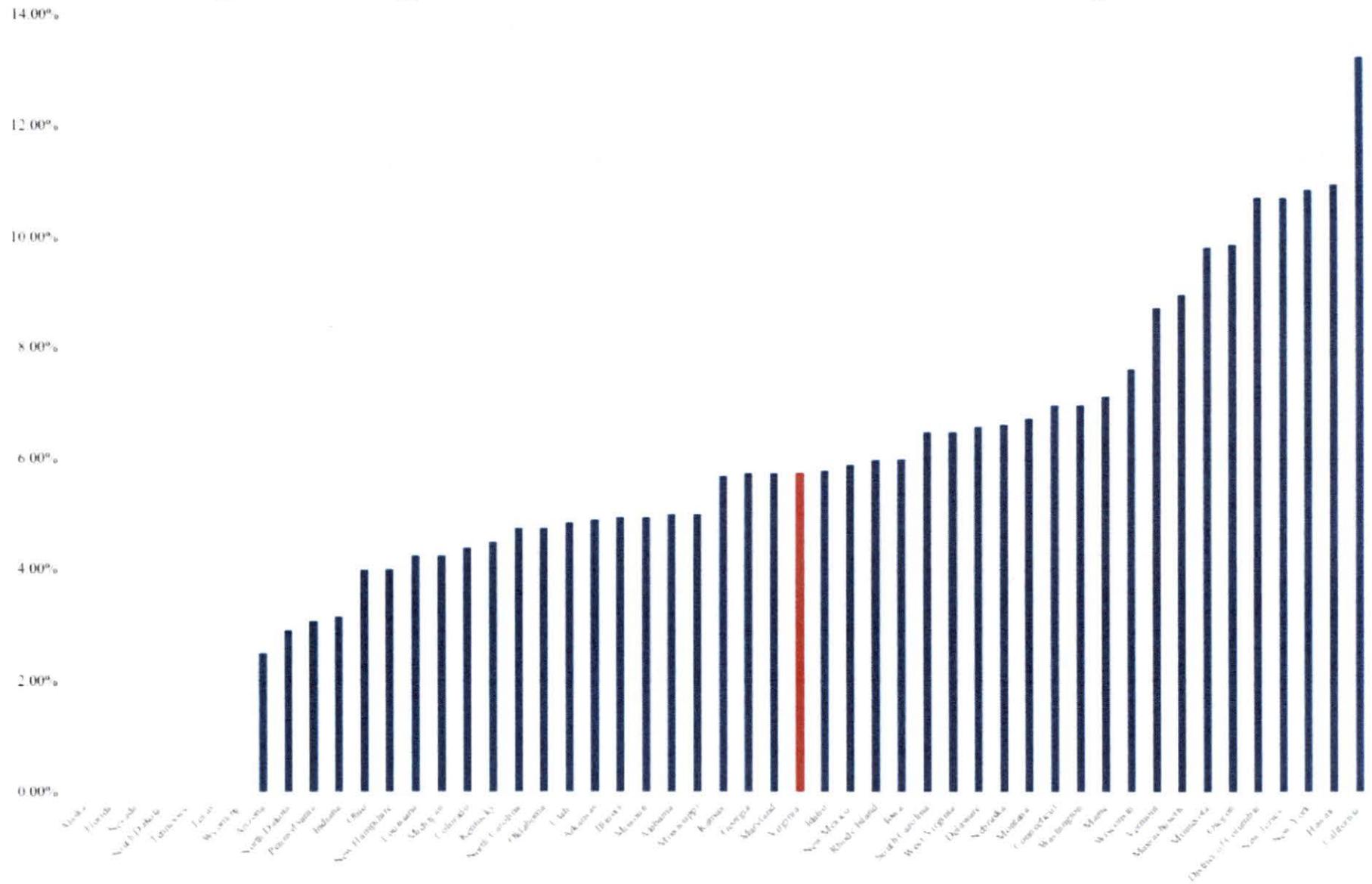
Virginia Tax Rankings Versus Surrounding States

Ranking on Five Component Taxes as of July 1, 2022

State	Overall Index Rank	Corp. Tax	Ind. Income Tax	Sales Tax	Unemp. Ins. Tax	Prop. Tax
N.C.	10	5	17	20	10	13
Tenn.	14	45	6	46	21	33
W.Va.	20	16	29	18	26	10
Va.	26	17	34	12	39	29
S.C.	31	6	28	32	29	35
Ga.	32	8	35	31	35	28
Md.	46	33	45	30	41	42

Source: Tax Foundation, 2023 State Business Tax Climate Index.

Highest Marginal Individual Income Tax Bracket by State



Recent Tax Changes Increased Individual Income Tax Progressivity

- Virginia increased the progressivity of the individual income tax by:
 - 1) nearly doubling the standard deduction; and
 - 2) making the state earned income tax credit partially refundable – low-income filers can receive a refund even if they have little or no tax liability.
 - ✓ *2022 JLARC report*: Taken together, these changes will make Virginia’s income tax 45% more progressive than in 2021 (as measured by change in the “Suits” progressivity index, which measures the progressivity of taxes on all income groups), and more progressive than most other states’ income tax.
- These changes reduced taxes for many filers, but especially low and lower-middle income filers. *JLARC*:
 - Low-income filers (1st quintile of filers, up to \$14,000 in income) will see their effective tax rate (percentage of income paid in taxes) decline substantially from 0.8% to -1.2%.
 - Lower-middle income filers (2nd quintile of filers, \$14,000 to \$36,000 in income) will see their effective tax rates reduced by half, from 2.4% to 1.2%.

Individual Income Taxes Comprise 2/3 of General Fund Revenue

- Virginia's highest rate— 5.75% for income above \$17,000—is substantially less than many states with more progressive rate structures – *but starts its highest rate at much lower levels than many states, thus ultimately relying on individual income taxes more than most states.*
- Regionally, the highest income tax brackets and rates vary substantially. West Virginia's highest rate is 6.5% of income above \$60,000. Maryland's highest rate is 5.75% of income above \$250,000. North Carolina has a flat tax rate of 4.50% beginning in 2024, declining to 4.25% in 2025. Tennessee has no income tax.

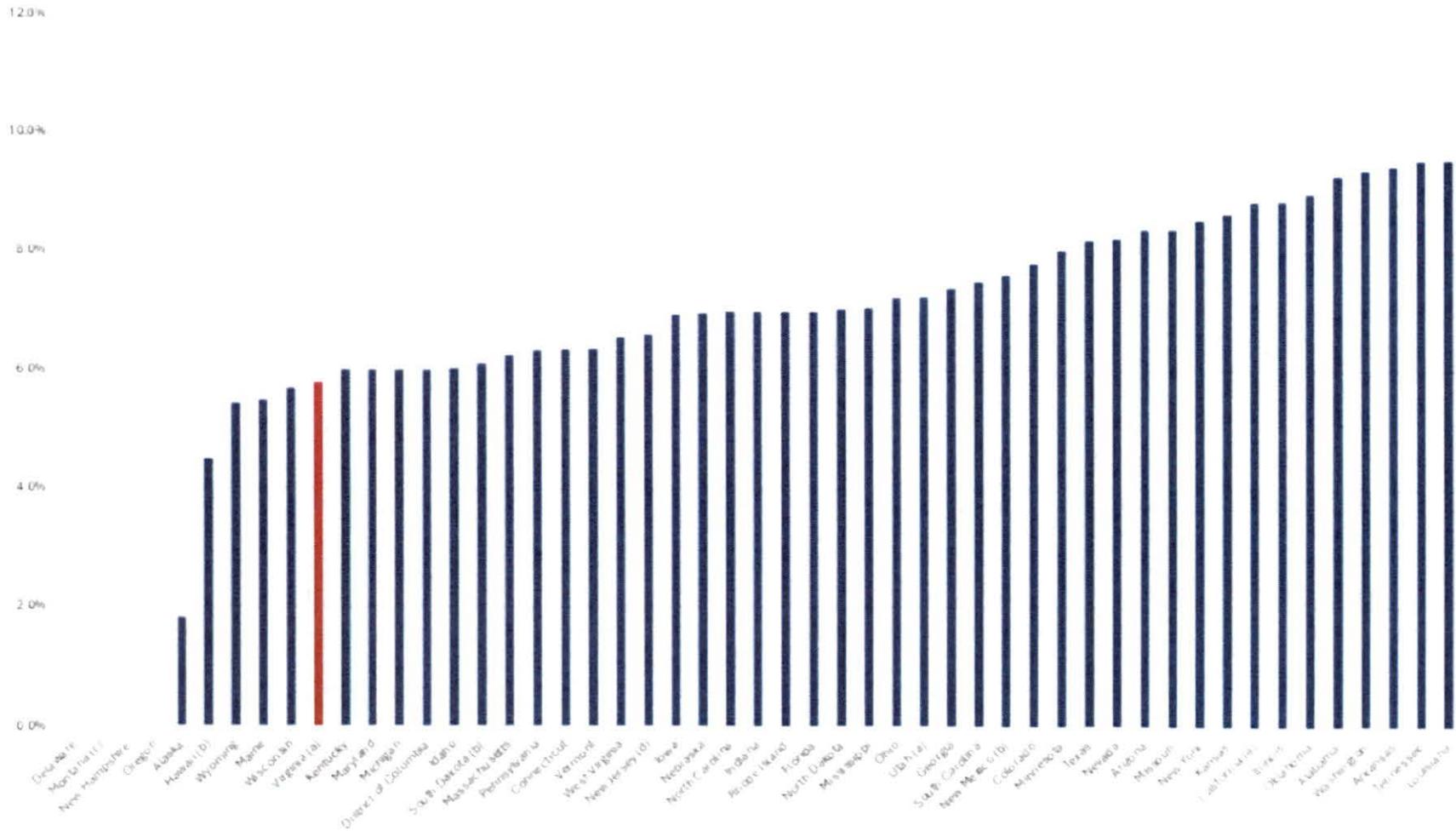
Policy Option Examples to Raise Revenue:

- **Create a new 7% income tax bracket for \$600,000 or more income (top 1% of income filers). Raises about \$510 mil. per year beginning in 2026 (and growing by 5% each year)**
- **Create two new income tax brackets: 1) 6% bracket for \$100,000 to \$1 million income and 2) 6.75% bracket for \$1,000,000 or more income.**
 - **Raises about \$600 mil. per year**
- In tax year 2021, Planning District 8 (NoVA) filed 31 percent of total Virginia tax returns, representing 47 percent of state income tax liability, and 52 percent of state adjusted gross income above \$100,000.

Virginia Has a Relatively Low Combined Sales Tax Rate Compared to Other States

(Each 1 percent VA increase would raise \$1.6 bil. GF)

Average Combined State/Local Sales Tax Rate



Sales Taxes on Services Are Different by State

- Five U.S. states (New Hampshire, Oregon, Montana, Delaware, and Alaska*) do not impose any general, statewide sales tax, whether on goods or services.
- Of the 45 states remaining, four (Hawaii, South Dakota, New Mexico, and West Virginia) tax services by default, with exceptions only for services specifically exempted in the law.
- This leaves 41 states — and the District of Columbia — where services are not taxed by default, but services enumerated by the state may be taxed. Every one of these states taxes a different set of services.
- Virginia is considered to be a state that has a low level of sales tax on services. See <https://taxadmin.org/state-taxation-of-services-by-category-2017/>

* Alaska has a local sales tax

Sales Tax Exemptions on Services in Virginia

Reduce the Sales Tax Base

Type of Service	Example of Service	FY 2025 Revenue Est. Impact (\$ Mil.)
Professional Services	Accounting, Legal, Architecture and Engineering, Computer Services	\$4,300
Business Services	Employment, Consulting, Advertising, and Security Services	\$3,000
Personal Services	Admissions, Auto Repair, Hairdressing, Laundry, Maintenance	\$926
Insurance Services	Insurance Agency/Brokering	\$113
Streaming Services	Music and Video	\$105
Digital Downloads	Music, Video, Books, Magazines, etc.	\$53

Source: <https://sfac.virginia.gov/pdf/retreat/2023%20Tysons/4.%20Overview%20of%20Virginia'sRevenue%20and%20Tax%20Policy.pdf>

Virginia Has a Lower Sales Tax Rate and Service Base than Surrounding States

	State Rate	Avg Local Rate	Combine S&L Rate	% Services in Sales Tax Base
Virginia	4.30%	1.47%	5.77%	13%
Maryland	6.00%	0.00%	6.00%	19%
West Virginia	6.00%	0.60%	6.60%	29%
North Carolina	4.75%	2.25%	7.00%	24%
Florida	6.00%	1.02%	7.02%	23%
Georgia	4.00%	3.39%	7.39%	22%
South Carolina	6.00%	1.50%	7.50%	21%
Texas	6.25%	1.95%	8.20%	19%
Tennessee	7.00%	2.55%	9.55%	23%

Source: [https://www.finance.virginia.gov/media/governorvirginiagov/secretary-of-finance/pdf/12_23Presentation-\(with-Appendix\).pdf](https://www.finance.virginia.gov/media/governorvirginiagov/secretary-of-finance/pdf/12_23Presentation-(with-Appendix).pdf)

Sales Tax on “New Economy” Products in Surrounding States

Service	# States Taxing	VA	FL	GA	NC	SC	TN	TX
Digital downloads	32	Exempt	Taxable	Taxable	Taxable	Exempt	Taxable	Taxable
Software application services	19	Exempt	Exempt	Exempt	Taxable	Taxable	Taxable	Exempt
Computer-related services	27	Exempt	Exempt	Exempt	Taxable	Taxable	Taxable	Taxable
Website-hosting and design	8	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Taxable
Data storage	9	Exempt	Exempt	Exempt	Exempt	No Specific Guidance	Taxable	Taxable
Streaming music and video	33	Exempt	Taxable	Exempt	Taxable	Taxable	Taxable	Taxable

Source: Ernst & Young; : CCH Multistate Sales Tax Guide, Thomson Reuters Sales/Use Tax State Charts as of 30 October 2023.

Reprinted from: [https://www.finance.virginia.gov/media/governorvirginiagov/secretary-of-finance/pdf/12_23Presentation-\(with-Appendix\).pdf](https://www.finance.virginia.gov/media/governorvirginiagov/secretary-of-finance/pdf/12_23Presentation-(with-Appendix).pdf)

Recent Proposals to Increase Sales Taxes on Services in Virginia

- Original 2024 Session enrolled budget bill added over \$1 billion in biennium revenue (over \$750 mil. in 2nd yr.) by:
 - Applying retail sales taxes (\$157m yr 1 and \$393m yr 2) to the purchase of digital services or electronic products in five distinct categories: 1) software application services; 2) computer-related services; 3) website hosting and design; 4) data storage; and 5) streaming services
 - Applying sales tax on business-to-business purchases of “software application services (\$144m yr 1 and \$360m yr 2)
- June adopted budget compromise eliminated sales tax base expansion on “new economy” services.
- HB 889 (Watts – 2024 Session) proposed applying retail sales taxes to a broad spectrum of services.
 - \$1.1 billion per year in additional sales tax revenue
 - Repealed local option sales tax on food (\$309 mil. reduction in FY 26)
 - Also added \$100 mil. in revenues to the CSUT by adding digital streaming services
 - This bill would broaden the sales tax base, including the local option base. Net local revenues from this bill depends on whether the local sales tax on food is repealed.

Data Centers Are Big Business in Virginia

- For FY 2023, data center operators reported to VEDP 792 net new jobs and investment of approximately \$23 billion, of which approximately \$15.6 billion was equipment or software that was exempt from sales tax.
- Significant local tax revenues result from the tangible personal property in data centers.
- The sales tax exemption for data center equipment is estimated by JLARC to have reduced FY 2023 GF, transportation and local sales tax revenue by \$904 mil – and is by far the largest sales tax exemption.
Source: <https://rga.lis.virginia.gov/Published/2024/RD121/PDF>
 - Virginia Code§ 58.1-609.3 (18) provides an exemption for data center operators and their tenants from the Virginia Retail Sales and Use Tax for computer equipment or enabling software purchased or leased for the processing, storage, retrieval, or communication of data. This exemption also applies to any such computer equipment or enabling software purchased or leased to upgrade, supplement, or replace computer equipment or enabling software purchased or leased in the initial investment.
 - In 2019, JLARC found: “The exemption has a sizable influence on data center decisions to locate or expand in Virginia, and it is estimated to have a moderate economic benefit per \$1 million in spending by the state. It is reasonable for the state—which has identified data centers as a targeted industry—to continue the exemption.”
 - A new JLARC study of data centers is expected to be presented on December 9, 2024.
- Other sales tax exemptions are listed here:
<https://www.tax.virginia.gov/sites/default/files/inline-files/virginia-sales-tax-exemptions.pdf>

Virginia Sales
Tax Rate Can
Vary From
5.3% to 7.0%,
Depending on
Locality

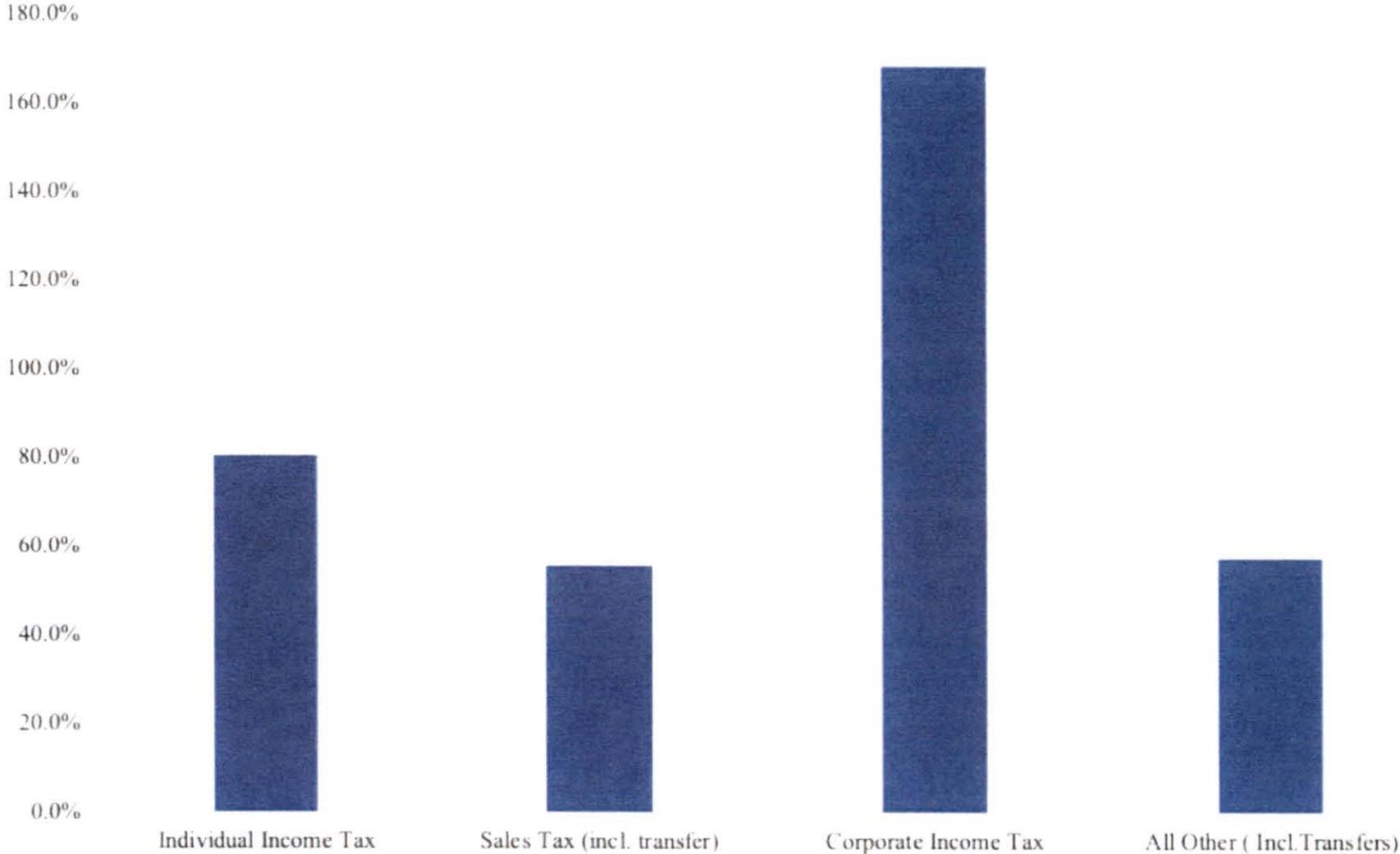
	<u>Rate</u>
General Fund Unrestricted	2.025%
Direct Public Education	1.375%
<i>By School-Age Population</i>	<i>1.125%</i>
<i>By SOQ Composite Index</i>	<i>0.250%</i>
Transportation	0.900%
<i>HMOF</i>	<i>0.669%</i>
<i>Airports</i>	<i>0.012%</i>
<i>Ports</i>	<i>0.021%</i>
<i>Public Transit</i>	<i>0.149%</i>
<i>Intercity Rail</i>	<i>0.050%</i>
Total State Sales Tax	4.300%
Local Gov't Unrestricted	1.000%
<i>(food and personal hygiene only taxed at local 1% rate)</i>	
Regional 0.7% Sales Tax for Transp.	0.70%
<i>Northern VA (32.4% of state)</i>	
<i>Hampton Roads (19.5% of state)</i>	
<i>Central Virginia (13.2%)</i>	
Historic Triangle 1.0%	1.00%
<i>(Williamsburg, James City Co, York Co.)</i>	
Local School Construction	1.00%
<i>(Charlotte, Danville, Gloucester, Halifax, Henry, Northampton, Patrick, Pittsylvania)</i>	
Total Maximum Statewide Rate	7.000%

Appendices

Virginia General Fund Revenue Sources

	FY22 Actual	FY23 Actual	FY24 Actual
<i>Withholding</i>	\$15,340.3	\$15,957.2	\$16,718.2
<i>Estimated Pay/Tax Dues</i>	\$6,810.5	\$6,629.2	\$6,563.7
<i>Refunds</i>	<u>-\$1,740.5</u>	<u>-\$3,602.8</u>	<u>-\$2,971.5</u>
Net Individual Income	\$20,410.3	\$18,983.6	\$20,310.4
Sales Taxes	\$4,558.1	\$4,734.5	\$4,709.7
Corporate Income	\$1,978.7	\$2,031.1	\$1,907.1
Insurance	\$426.8	\$450.9	\$468.2
Recordation	\$654.1	\$430.6	\$406.5
Interest	\$76.8	\$365.3	\$699.9
All Other	<u>\$830.2</u>	<u>\$913.9</u>	<u>\$946.4</u>
Total GF Revenue	\$28,935.0	\$27,909.9	\$29,448.2
Sales Tax Transfers	\$522.5	\$557.0	\$573.8
Other Transfers	\$291.9	\$258.6	-\$561.1
Total General Fund	\$29,749.4	\$28,725.5	\$29,461.0
Lottery	\$779.6	\$870.8	\$1,020.3

**FY 2014-24
GF Revenue Growth by Source**



Non-General Funds are Dedicated for Specific Uses

Non-General Fund Category	Major Examples	<u>FY 2007</u>	<u>FY 2024</u>	<u>% Growth</u>
Higher Ed Operating	Tuition and fees, university hospital revenue, federal funds for Hi ED	\$4,852.8	\$10,309.2	112%
Federal Trust	All federal funds received (e.g. medicaid), except those received by VDOT, VEC, and Hi Ed	\$4,871.6	\$18,762.2	285%
Commonwealth Transportation	Transportation taxes incl. federal \$, excluding tolls	\$3,928.5	\$8,469.0	116%
Trust and Agency	Unemployment insurance, tobacco settlement, lottery and literary funds earmarked to K-12	\$1,083.3	\$2,931.0	171%
Internal Service	DGS leasing office space, VITA providing IT services to other agencies, and DHRM administering state and local government employees' health plans	n/a	\$2,414.0	n/a
Dedicated Special Revenue	VA Health Care Fund, Safe Drinking Water Fund, Game Protection Fund, highway tolls, DMV fees, state park fees, solid waste fees, etc	\$638.2	\$5,107.3	700%
Special revenue	Revenues derived from restricted taxes and other special revenue sources, e.g. state ID health services	\$1,602.6	\$2,088.3	30%
Enterprise	ABC and lottery sales, prepaid tuition 529 plans	\$850.1	\$2,596.4	205%
Other Debt Service	Primarily Hi Ed student fees for dining, housing, athletics	\$234.4	\$363.6	55%
Total Non-General Funds		\$18,061.5	\$53,041.0	194%
General Fund		\$17,033.1	\$31,093.8	83%
Total		\$35,094.6	\$84,134.8	140%