The revenue forecast

The Commonwealth's total revenue consists of two types of resources: the general fund and nongeneral funds. About half of state revenues (49.0 percent) are "nongeneral funds," or funds earmarked by law for specific purposes. For example, motor vehicle and gasoline taxes must pay for transportation programs, student tuition and fees must support higher education, and federal grants are designated for specific activities.

General fund revenues are derived from general taxes paid by citizens and businesses in Virginia. Because general fund revenue is not dedicated to any particular purpose and can be used for a variety of government programs, these are the funds that the Governor and the General Assembly have the most discretion to spend.

General fund revenues are derived primarily from five major revenue sources: corporate income taxes, individual income taxes, sales and use taxes, public service gross receipts and consumption taxes, and insurance premium taxes. Miscellaneous taxes and other revenues also contribute to the general fund.

Growth in general fund revenues exceeds forecast for seventh straight year

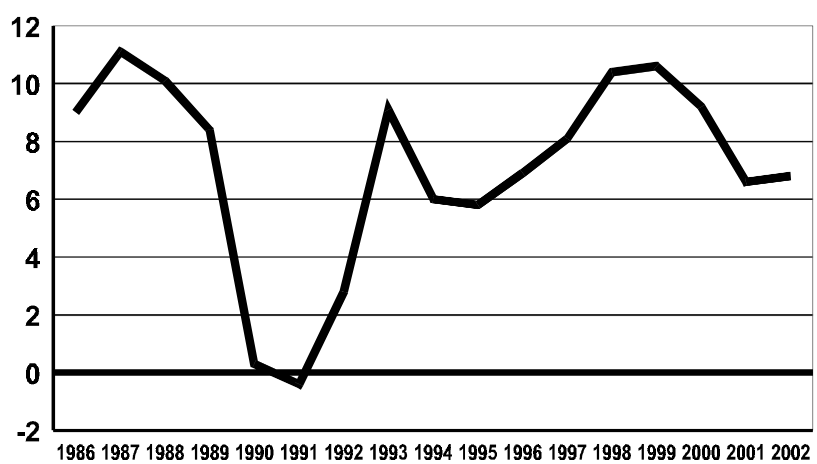
In fiscal year 1999, total general fund revenues grew 10.6 percent to $9,702.7 million, exceeding by $155.3 million the official forecast of $9,547.4 million (8.8 percent growth).

Collections of net individual income taxes contributed $137.4 million to the revenue surplus in fiscal year 1999, driven by robust withholding collections and continued strength in nonwithholding payments. Collections of sales and use taxes also exceeded estimates. Receipts of corporate income taxes, insurance company premiums taxes, and public service gross receipts taxes, however, fell short of expectations. Collectively, the five major sources of general fund revenue ended the year with a surplus of $118.7 million.

Miscellaneous taxes and other revenues finished the fiscal year with a $36.6 million surplus. The bulk of the surplus came from estate and gift

General fund revenue growth expected to be 6.6 and 6.8 percent for the 2000-02 biennium

Percent change over previous year



Data for 2000, 2001, and 2002 are forecasts. Source: Department of Taxation taxes, with substantial contributions from collections of wills, suits, deeds and contract fees; bank franchise taxes; and alcoholic beverages taxes.

The forecast for general fund revenue is for a continuation of the robust growth of the last three fiscal years in fiscal year 2000 followed by more moderate growth in the 2000-02 biennium. Total revenues are expected to grow by 9.2 percent in fiscal year 2000, 6.6 percent in 2001, and by 6.8 percent in fiscal year 2002.

Five major sources account for most general fund revenue

Here's a look at the forecast for each of the major categories of general fund revenue:

Corporate income taxes

Corporate income taxes declined by 6.7 percent in fiscal year 1999, well below the forecast of 1.9 percent growth. Growth in corporate collections should rebound in fiscal year 2000, increasing by 13.0 percent. Corporate profits and tax liabilities are expected to flatten out in the next two years, with a 2.2 percent decline in fiscal year 2001 and 1.2 percent growth in fiscal year 2002.

The worldwide economic recovery along with strong domestic consumption should boost the demand for manufactured goods. On the other hand, tight labor markets and rising input prices are expected to hinder corporate profitability. In addition, tax relief measures such as the Coalfield Employment Enhancement Credit and a change in the manner in which corporate income is apportioned to Virginia for state taxation will depress growth rates in fiscal years 2001 and 2002.

Individual income taxes

Net individual income tax receipts of $6,087.9 million exceeded the official estimate by $137.4 million in fiscal year 1999. Actual growth over the previous year was 12.6 percent. For 2000, these receipts are forecast to be $6,757.8 million, an 11.0 percent increase over 1999. Robust growth of 9.4 percent is expected in fiscal year 2001 and more moderate growth of 7.9 percent is expected in fiscal year 2002.

Sales and use taxes

Sales and use tax collections grew by 7.6 percent in fiscal year 1999, $28.5 million ahead of the official forecast. In fiscal year 2000, solid consumer fundamentals are expected to boost sales tax collections to 6.8 percent growth. Growth in sales tax collections is expected to moderate to 4.9 percent in fiscal year 2001 as implementation of the 0.5 percent reduction in the sales tax on food is in effect for a full

The general fund forecast for the 2000-02 biennium

	Actual	Forecast	2000-02 biennium Forecast	Forecast
	1999	2000	2001	2002
Major tax sources				
Corporate income	$420.4	$475.1	$464.8	$470.2
Individual income	6,087.9	6,757.8	7,394.0	7,980.6
Insurance premiums	244.9	249.6	261.1	273.6
Public utility	111.9	121.4	89.9	84.8
State sales & use	2,065.3	2,205.6	2,313.6	2,465.2
Miscellaneous	772.3	782.2	766.3	788.2
Total revenues	9,702.7	10,591.7	11,289.7	12,062.6
Transfers				
ABC profits	25.5	23.0	22.4	23.0
Lottery profits	321.9	310.3	310.3	310.3
Transfers from the Appropriation Act	49.1	78.2	21.7	17.5
Tobacco Settlement	--	66.6	51.6	11.6
Total general fund	**$10,099.2**	**$11,069.8**	**$11,695.7**	**$12,425.0**

Dollars in millions. Excludes balances available for appropriation. Figures may not add due to rounding. Source: Department of Taxation.

fiscal year. Collections in fiscal year 2002 are expected to grow by 6.6 percent.

Public service gross receipts / consumption taxes

Revenues from public utility companies were very close to the 1999 forecast, finishing the year $0.6 million below the estimate. Legislation signed into law in 1999 will begin the process of deregulation of the electric utilities. Therefore, collections from this source will decline beginning in fiscal year 2001 as corporate income tax payments from the electric companies will begin in that same year. As part of the deregulation legislation, a per kilowatt hour consumption tax on consumers of electricity was enacted. Revenues from this tax are included here. Collections in this source are expected to grow by 8.4 percent in fiscal year 2000, and then decline by 25.9 percent and 5.7 percent in fiscal years 2001 and 2002, respectively, as deregulation phases in.

Insurance company premiums taxes

Tax collections on insurance company premiums fell short of the forecast by $7.6 million in 1999. In 2000, insurance premiums taxes are anticipated to produce $249.6 million for the state's treasury, growing 1.9 percent. Fiscal years 2001 and 2002 collections are expected to grow at 4.6 and 4.8 percent, respectively.

Miscellaneous taxes and other revenue

Miscellaneous taxes and other revenues exceeded projections by $36.6 million in 1999. Most of the excess was caused by larger-than-expected collections of estate taxes.

Collections of miscellaneous taxes and other revenues are expected to increase 1.3 percent in fiscal year 2000, decline by 2.0 in fiscal year 2001, and increase by 2.9 percent in fiscal year 2002.

Nearly half of state revenue is nongeneral fund revenue

Although most public attention is focused on general fund revenue, nearly one-half of all revenue in the state budget is nongeneral funds that are earmarked by law for specific purposes.

Nongeneral fund revenue is expected to increase by 10.1 percent in 2000 and by 8.4 percent in 2001 before declining by 4.0 percent in 2002. Nongeneral funds will comprise

The nongeneral fund forecast for the 2000-02 biennium

	1998-00 biennium		2000-02 biennium	
	Actual ***1999***	*Forecast* ***2000***	*Forecast* ***2001***	*Forecast* ***2002***
Motor vehicle fuel tax	$802.0	$846.4	$864.1	$869.6
Unemployment compensation payroll tax	138.1	125.7	143.9	174.1
Special highway tax from sales tax	345.1	371.4	395.5	421.2
Motor vehicle sales and use tax	435.7	450.4	457.3	460.4
Other taxes	90.2	90.0	91.8	94.8
Rights and privileges	509.4	531.9	541.4	551.7
Sales of property and commodities	298.1	311.5	318.3	326.6
Institutional revenue	2,444.9	2,488.7	2,518.6	2,578.0
Interest dividends and rents	127.0	97.2	94.0	89.8
Federal grants and contracts	3,656.7	4,273.6	4,373.3	4,362.5
Tobacco Master Settlement Agreement Funds	. . .	99.9[1]	647.5	94.9
Other Revenue	763.4	895.3	1,025.6	989.6
Total[2]	**$9,610.6**	**$10,582.0**	**$11,471.3**	**$11,013.2**

Dollars in millions. Figures may not add due to rounding.
[1]Not in Appropriation Act for fiscal year 2000. Appropriated by stand-alone legislation (Chapter 880, 1999 Acts of Assembly).
[2]Total excludes balances and bond proceeds available for appropriation, as well as Lottery, Literary, and internal service funds.

Source: Department of Planning and Budget, based on data submitted by agencies.

about 49.0 percent of total state revenue during the 2000-02 biennium.

Federal grants

Federal grants are the largest source of nongeneral fund revenue (more than one-third of the total).

Frequently these grants do not come to the state as simple cash transfers. The federal government mandates many program requirements as conditions of the grants and often states must provide matching funds. The Medicaid program for indigent health care is an example of a federal entitlement program which requires a state contribution.

In 1999, federal grants and contracts totaled $3.7 billion. This source is projected to increase by 16.9 percent to $4.3 billion in 2000, by an additional 2.3 percent in 2001 to $4.4 billion and then level off for 2002.

Institutional revenue

The second largest class of nongeneral fund revenue is institutional revenue. The principle sources of this revenue are patient fees at teaching hospitals and mental health institutions as well as tuition and fees paid by students at institutions of higher education. In 1999, institutional revenue collections were $2.4 billion, about one-fourth of all nongeneral fund revenue. Institutional revenues are projected to grow modestly by 1.8 percent to $2.5 billion in 2000 and by 1.2 percent and 2.4 percent in 2001 and 2002, respectively. These growth rates are affected by two offsetting trends: the continuation of the freeze on tuition increases at institutions of higher education, and the collection of additional revenues at correctional institutions for out-of-state prisoners.

Transportation Fund

State transportation revenue comes from several sources including the motor vehicle fuels tax, the motor vehicle sales and use tax, road taxes, vehicle license fees, state sales tax, interest earnings, and other miscellaneous taxes and fees. Money in this fund is used to support highway construction and maintenance and operating costs. Federal, local, and toll revenues are also used to finance transportation programs.

Commonwealth transportation revenues from state taxes and fees amounted to $1.77 billion in 1999, an increase of $90.0 million over the prior year. Total collections ended at $61.2 million, or 3.6 percent above the forecast. This variance was primarily due to a strong economy with low inflation, greater than expected vehicle purchases, increased travel, growth in diesel fuel sales, and relatively low gasoline prices. For 2001 and 2002, total fund revenues from state sources are expected to grow to $1.86 billion and $1.90 billion, respectively. These amounts are equal to annual growth of 2.5 percent and 2.2 percent, respectively.

Unemployment insurance fund

Unemployment insurance tax collections rise and fall with trends in the economy. Projected collections are expected to be lower this year, reflecting higher wage and employment growth and the increase in the fund balance factor (solvency level) which governs the tax schedules or formula used to make collections for the Unemployment Insurance Trust Fund. For 2000, unemployment tax collections are expected to decrease to $125.7 million from actual collections of $138.1 million in 1999. For 2001 and 2002, revenues are anticipated to increase to $143.9 million and $174.1 million, respectively.

Tobacco Master Settlement Agreement Funds

The Master Settlement Agreement (MSA) was signed between the major participating cigarette manufacturers and 46 states, the District of Columbia, and five United States' territories on November 23, 1998. The settlement agreement releases participating manufacturers from past, present, and future smoking-related claims of the states in return for an annual cash payment to the states in perpetuity. These payments are to be adjusted over time for several factors, including inflation and changes in volume of domestic cigarette shipments.

The participating manufacturers are currently making these payments to the MSA Escrow Agent. Disbursement of the funds to individual settling states will occur when: (1) the state has settled its pending or potential litigation with a consent decree and the time for all appeals against the consent decree has expired (i.e. State-Specific Finality), and (2) the earlier of June 30, 2000, or the date when at least 80 percent of the settling states, in terms of number and dollar volume of entitlement to MSA payments, have reached State-Specific Finality (i.e., Final Approval). At present, it is expected that the initial payments will begin to be made to the states that have reached State-Specific Finality in December 1999, since the 80 percent requirement cited above has been satisfied.

The Commonwealth's plan for the use of MSA funds has four elements. First, legislation passed by the 1999 General Assembly (Chapter 880, 1990 Acts of Assembly) earmarked 60 percent of the allocation in two separate trust funds. The Tobacco Indemnification and Community Revitalization Fund will receive 50 percent of the MSA allocation. It will be used to compensate tobacco growers and tobacco quota holders for the economic loss resulting from quota loss or elimination and to promote economic growth and development in tobacco-dependent communities in the Southside and Southwest regions of the state.

The Virginia Tobacco Settlement Fund will receive the next 10 percent of the MSA allocation to be used for the purposes of discouraging, eliminating, or preventing the use of tobacco products by minors, including but not limited to educational and awareness programs on the health effects of tobacco use on minors, and on laws restricting the distribution of tobacco products to minors. For fiscal years 2000, 2001, and 2002, it is anticipated that the Tobacco Indemnification and Community Revitalization Fund will receive $83.2 million, $64.4 million, and $79.0 million, respectively, while the Virginia Tobacco Settlement Fund will take in $16.7 million, $12.9 million, and $15.8 million over the same period.

For the remaining 40 percent of the MSA allocation, the Governor recommends that this portion be initially deposited to the general fund through fiscal year 2001. The amount so deposited would be primarily used to establish a new Priority Transportation Fund, which would be available to finance transportation projects of statewide importance. In fiscal year 2000, the general fund deposit is estimated to be $66.6 million, and in fiscal year 2001 it is projected to be $51.6 million.

For fiscal year 2002 and beyond, the Governor proposes that the remaining 40 percent share of the MSA allocation be sold to a special purpose entity that will sell bonds to investors to finance the purchase of the allocation. The Commonwealth will receive a net present value lump sum payment, rather than continuing to receive multi-year payments. This financing option, which is called "securitization," provides an up-front payment to the Commonwealth with smaller residual payments over the life of the bonds. The financing is secured solely by the asset of the cash flows generated by the 40 percent annual income stream of the MSA allocation. The Governor recommends that the lump sum payment, anticipated to be $570.1 million, also be deposited to the Priority Transportation Fund.

Finally, the Governor proposes that any residual payments accruing to the Commonwealth beyond the initial proceeds of the securitization payment be deposited to the general fund for subsequent transfer into the Priority Transportation Fund. One residual payment of $11.6 million is expected during the next biennium in the latter part of fiscal year 2002.