REVENUE FORECAST

The Commonwealth's total revenue consists of two types of resources: the general fund and nongeneral funds. About half of state revenues are "nongeneral funds," or funds earmarked by law for specific purposes. For example, motor vehicle sales and motor fuel taxes are earmarked by law for transportation programs, students' tuition and fees 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. General fund revenue are 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. The two largest sources are the individual income tax and the sales and use tax. Other major revenue sources are wills, suits, deeds and contract fees, corporate income taxes, and taxes on insurance company premiums. Miscellaneous taxes and other revenues also contribute to the general fund.

FY 2008 collections show a marginal gain

In FY 2008, total general fund revenues rose by 1.3 percent to $15,767.0 million, exceeding the official forecast (1.2 percent growth) by $15.9 million.

Withholding and sales tax collections (76 percent of total general fund revenues) are the two revenue sources most closely tied to economic activity in the Commonwealth. They finished a combined 0.8 percent below forecast. The three most volatile revenue sources -- individual nonwithholding, corporate income tax, and wills, suits, deeds, and contracts (primarily recordation tax receipts) finished a combined $60.0 million above forecast. That was 1.5 percent ahead of the annual forecast for these three sources. A surplus of $108.8 million in corporate income tax receipts was partially offset by shortfalls of $9.6 million in nonwithholding payments and $39.2 million in recordation tax receipts.

Collections of miscellaneous taxes and other revenues were $45.1 million above the estimate in FY 2008, a forecast variance of 5.2 percent. Greater-than-expected collections of inheritance, gift, and estate taxes and interest income drove the large forecast variance.

FY 2009 revenues expected to decline as economic recession takes hold

The general fund revenue forecast for FY 2009 and FY 2010 illustrates the impact on tax collections from the collapse of the housing market, the deterioration of the stock market, and continuing job losses.

General fund revenue collections in FY 2009 are expected to decline by 4.8 percent. However, the decline is overstated due to the impact of Chapter 896 (HB 3202), requiring the Comptroller to transfer one-third of prior year insurance company premiums and $0.03 of recordation tax to various transportation funds beginning in FY 2009, and the repeal of the estate tax. Adjusted for these items, revenues are projected to decline 2.8 percent. Total general fund revenues are projected to increase 4.0 percent in FY 2010.

	Actual 2008	*Forecast* 2009	*Forecast* 2010
Major tax sources			
Corporate income	$807.9	$685.0	$729.0
Individual income	$10,114.8	$10,045.4	$10,387.8
Insurance Premiums	$396.9	$257.5	$283.1
State sales & uses	$3,075.5	$3,010.9	$3,166.6
Wills, Suits, Deeds & Contract Fees	$456.3	$298.1	$298.1
Miscellaneous	$915.5	$718.4	$757.4
Total revenues	$15,767.0	$15,015.3	$15,622.0
Transfers			
ABC Profits	$36.1	$36.6	$37.0
Lottery Profits	$458.2	$0.0	$0.0
Sales Tax (0.25%)	$226.7	$222.1	$228.5
Transfers per the Appropriation Act	$91.6	$145.2	$162.8
Total transfers	**$812.5**	**$403.9**	**$428.3**
Total general fund	**$16,579.5**	**$15,419.2**	**$16,050.3**

Forecast for the major general fund revenue sources

For each of the major categories of general fund revenue, the following describes the actual performance in FY 2008 and the estimate over the forecast horizon:

Individual income taxes

Collections of net individual income taxes grew 3.3 percent in FY 2008, below the annual estimate of 3.9 percent growth. Annual collections were $56.4 million below the official forecast. The significant slowdown in growth between FY 2007 and FY 2008 was attributable to slowing growth in both payment components of individual income tax, withholding and nonwithholding. On the positive side, the Commonwealth issued less in individual refunds than projected.

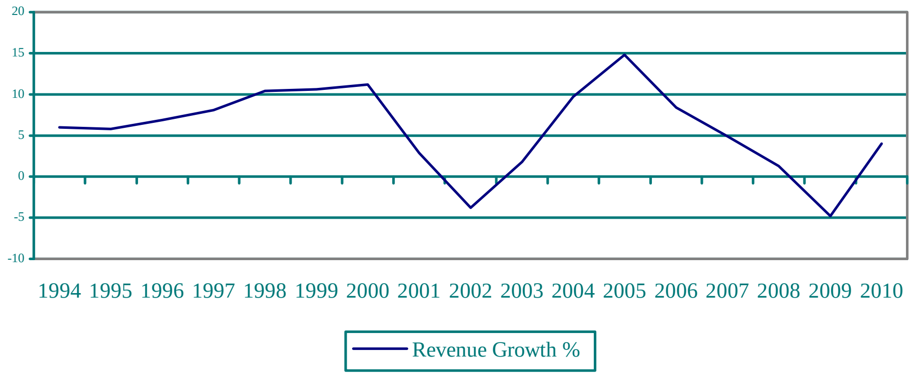
The forecast for net individual income taxes was revised downward over the forecast horizon. The bulk of the reduction is attributable to the revised outlook for nonwithholding and individual refunds. Individual income tax collections are expected to decline 0.7 percent in FY 2009 and increase 3.4 percent in FY 2010.

Sales and use taxes

Collections of sales and use taxes grew 0.9 percent in FY 2008, 0.7 percentage point below the annual estimate, a $20.9 million shortfall. Housing-related sales led the weakness in growth for the year. Taxable sales from department stores and restaurants, two sectors dependent on discretionary income, were flat. Adjusting for higher food prices, sales at grocery stores, warehouse clubs, and supercenters were flat to negative in FY 2008.

The forecast for FY 2009 has been reduced to reflect the economy's recessionary outlook. Growth in FY 2010 is expected to rebound slightly.

General fund revenue collections to decline in FY 2009
Percent change over previous year



Corporate income taxes

The forecast for corporate income taxes anticipated a 20.5 percent decline in this source in FY 2008. However, corporate income tax receipts did not fall as far as anticipated, finishing $108.8 million above the annual estimate with only an 8.2 percent decline. As expected, payments attributable to housing and finance fell substantially. Unexpected growth in payments, particularly from federal contractors and firms in the energy sector, drove the surplus.

In the December revenue forecast, corporate income tax collections are expected to decline by 15.2 percent in FY 2009. FY 2010's forecast shows growth of 6.4 percent.

Insurance company premiums taxes

Collections of taxes on the premiums of insurance companies were $396.9 million in FY 2008, $21.5 million below the forecast. Net receipts grew by 3.1 percent compared with the forecasted growth rate of 8.7 percent.

The significant decline in collections in FY 2009 is due to the impact of recent legislation (HB 3202 of the 2007 session), requiring the Comptroller to deposit one-third of insurance company premiums tax collected in the most recently ended fiscal year to the Priority Transportation Fund.

Wills, Suits, Deeds & Contract Fees

Collections in wills, suits, deeds, and contracts (primarily recordation tax receipts) declined 21.7 percent in FY 2008, following a 16.1 percent drop in FY 2007, well below the forecast of a 15.0 percent decline. From FY 2001 to FY 2006, recordation tax receipts increased with the boom in the housing market, growing an average of 20.6 percent per year. The downturn in the housing market has resulted in declines in volume and prices, increasing the drag on recordation tax collections in FY 2008.

In the December revenue forecast, FY 2009 collections of wills, suits, deeds & contract fees are expected to decline by 34.7 percent from FY 2008. However, this is overstated due to the impact of Chapter 896 (HB 3202), requiring the Comptroller to deposit the revenues collected from $0.03 of the recordation tax to various transportation funds beginning in FY 2009.

Over half (57.5%) of state revenue is nongeneral fund revenue

Although most public attention is focused on general fund revenue, over 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 11.2 percent in 2009 and by 1.5 percent in 2010. Nongeneral funds will comprise about 57.5 percent of total state revenue during the 2008-2010 biennium.

Federal grants and other contracts

Federal grants are the largest source of nongeneral fund revenue, more than 38 percent 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 that requires a state contribution.

In 2008, federal grants and other contracts totaled $7.1 billion. This source is projected to increase by 22.6 percent to $8.7 billion in 2009, and to decrease -4.4 percent in 2010 to $8.3 billion. This pattern is caused by the uncertainty surrounding the federal budget and federal domestic spending in the future.

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 2008, institutional revenue collections were $4.5 billion, about 24.3 percent of all nongeneral fund revenue. Institutional revenues are projected to grow by 8.0 percent to $4.8 billion in 2009 and by 5.1 percent in 2010. These growth rates are affected by two offsetting trends. An increase in tuition is assumed for institutions of higher education for the next biennium, but the collection of additional revenues at correctional institutions for out-of-state prisoners continues to decline in the out years.

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.

Transportation revenues totaled approximately $2.4 billion in FY 2008, an increase of 2.6 percent or $59.2 million over FY 2007. Total collections for FY 2008 ended $34.4 million below the official forecast, a variance of -1.4 percent. The increase in FY 2008 collections can be attributed to higher vehicle registration fees, the increase in the excise tax for diesel fuel, and increased penalties for overweight vehicles that were raised by recent legislation (House Bill 3202 of 2007). Adjusting for the increased fees, revenue collections in FY 2008 were $47.5 million less than FY 2007 collections.

During the 2007 session of the General Assembly, House Bill 3202 was enacted by the General Assembly and signed into law by the Governor. House Bill 3202 provided an influx of new revenues into the Commonwealth Transportation Fund. One-third of the insurance premiums tax and 3 cents (of the 25 cent) of the recordation tax began to be deposited into the Commonwealth Transportation Fund at the end of FY 2009.

As compared to the official forecast, total state taxes and fees are $295.3 million lower in FY 2009 and $304.9 million lower in FY 2010. FY 2009 is estimated to decline 1.5 percent and growth for FY 2010 is expected to be 2.7 percent.

Unemployment insurance fund

Unemployment insurance tax collections rise and fall with trends in the economy. The current estimates' decrease the tax revenue in fiscal 2009 reflects lower employment and declines in the four year moving average of benefit charges and in the pool tax rate. The increase projected in fiscal years 2010-2012 is the result of an increase in benefit charges and a decrease in the Fund Balance Factor. A fund building tax is imposed in Calendar Years 2010-2012. The changes in interest revenues are the result of declining trust fund balances. For 2009, unemployment tax collections are expected to decline to $322.7 million from actual collections of $344.0 million in 2008. For 2010 revenues are anticipated to increase to $486.4.

Lottery Proceeds Fund

For FY 2009, the Lottery is projecting sales of $1.4 billion and net income (turnover to the Lottery Proceeds Fund) of $430.2 million. Prize expense is estimated to be $808.3 million, or 58.1 percent of sales; retailer compensation is forecast to be $78.6 million, or 5.7 percent of sales. This forecast takes into account the overall slowdown in the growth of the Virginia scratch ticket product, and the estimated sales reduction anticipated from the continued competitive product offerings from the North Carolina Education Lottery. The estimated $430.2 million net income plus $0.3 million of residual FY 2008 profits transferred in FY 2009 brings the total expected transfers to the Lottery Proceeds Fund for FY 2009 to $430.5 million.

For FY 2010 through FY 2012, the lottery expects that sales and net income will remain near FY 2009 levels, of $1.4 billion creating revenue for the lottery Proceeds Fund of $430.2 each year.

Master Tobacco 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 Commonwealth's plan for the use of MSA funds has three elements. First, legislation passed by the 1999 General Assembly (Chapter 880, 1999 Acts of Assembly) earmarked 60 percent of the allocation in two separate trust funds. The Tobacco Indemnification and Community Revitalization Fund receives 50 percent of the MSA allocation. This share is 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. Recently, the annual amount received by this Fund was securitized and turned into an endowment.

The Virginia Tobacco Settlement Fund receives the next 10 percent of the MSA allocation for the purposes of discouraging, eliminating, or preventing the use of tobacco products by minors and for health care. Programs targeted at minors include but are not limited to educational and awareness programs on the health effects of tobacco and on laws restricting the distribution of tobacco products to minors.

The final portion of the allocation (40 percent) goes to the Virginia Health Care Fund. This Fund can be used to pay for various health care costs faced by the Commonwealth, including the Medicaid program for indigent health care.

For FY 2009, and FY 2010, it is anticipated that the Virginia Tobacco Settlement Fund will take in $14.4 million, and $14.6 million. The Virginia Health Care Fund will receive $55.7 million, and $55.7 million over the same period.

Nongeneral Fund Forecast for the 2008-2010 Biennium*			
	Actual 2008	**Forecast 2009**	**Forecast 2010**
Motor vehicle fuel tax	$924.4	$917.8	$927.5
Unemployment compensation payroll tax	344.0	322.7	486.4
Special highway tax from sales tax	524.9	514.5	529.0
Motor vehicle sales tax and use tax	541.7	430.1	457.2
Other taxes	375.7	455.8	609.6
Rights and Privileges	873.4	937.2	949.7
Lottery Proceeds Fund	456.0	430.5	430.2
Sale of property and commodities	784.8	799.5	827.4
Institutional revenue	4,481.3	4,839.6	5,088.0
Interest dividends and rents	129.4	102.3	90.3
Federal grants and contracts	7,093.7	8,700.0	8,317.9
Master Tobacco Settlement Agreement Funds	66.4	70.1	70.3
Other revenue	1,875.3	2,018.2	2,057.5
Total	**$18,470.9**	**$20,538.3**	**$20,841.0**

*Based on December 2008 forecast. Dollars in millions. Figures may not add due to rounding. Total excludes balances and bond proceeds available for appropriation, as well as Literary Fund transactions, and internal service funds.

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