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 other 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. Since 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. The two largest sources are the individual income tax and the sales and use tax. Other major revenue sources are corporate income taxes, wills, suits, deeds, and contract fees, and taxes on insurance company premiums. Miscellaneous taxes and other revenues also contribute to the general fund.

FY 2010 revenue collections slump

In FY 2010, total general fund revenues declined by 0.7 percent to $14,219.5 million, exceeding the official forecast (2.3 percent decline) by $230.9 million. Adjusted for the accelerated sales tax program, total general fund revenues declined 2.2 percent in FY 2010. Total general fund, including revenues and transfers, exceeded the official forecast by $228.5 million.

Collections of individual nonwithholding and corporate income taxes, historically the two most volatile revenue sources, accounted for $169 million of the revenue surplus. Payroll withholding and sales tax collections, 87 percent of total revenues, exceeded the forecast by $62 million. Individual refund activity was near expectations. Collections of insurance premiums tax exceeded the annual estimate, while collections of recordation tax fell short of the forecast. Collectively, the five major sources ended the year $254.0 million above the forecast.

Collections of miscellaneous taxes and other revenues were $23.2 million below the forecast in FY 2010. The shortfall was primarily attributable to interest income, which fell short of expectations by $21 million.

General fund revenue growth expected to regain traction slowly

The general fund revenue forecast for FY 2011 and FY 2012 is for below-trend growth due to the lingering effects of the severe economic contraction that began in 2008. In particular, the slow rate of job growth over the next two years is expected to constrain growth in general fund revenue collections.

Below-trend growth of total general fund revenues (excluding transfers) in FY 2011 and FY 2012 of 3.5 percent and 5.0 percent, respectively, illustrates the modest recovery in revenue growth over the forecast horizon.

The general fund forecast for FY 2011 and FY 2012*

	Actual 2010	Forecast 2011	Forecast 2012
Corporate income	$806.5	$781.5	$824.1
Individual income	9,088.3	9,681.8	10,218.1
Insurance premiums	261.9	277.7	289.6
State sales & uses	3,082.5	3,014.6	3,115.5
Wills, suits, deeds & contract Fees	290.2	274.0	294.1
Miscellaneous	690.2	687.8	710.8
Total revenues	$14,219.5	$14,717.4	$15,452.2
ABC profits	$50.0	$46.2	$47.8
Sales Tax (0.25%)	209.4	217.3	225.1
Transfers per the Appropriations Act	307.8	163.9	213.0
Total transfers	$567.2	$427.4	$485.9
Total general fund	**$14,786.7**	**$15,144.8**	**$15,938.1**

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

Forecast for the major general fund revenue sources

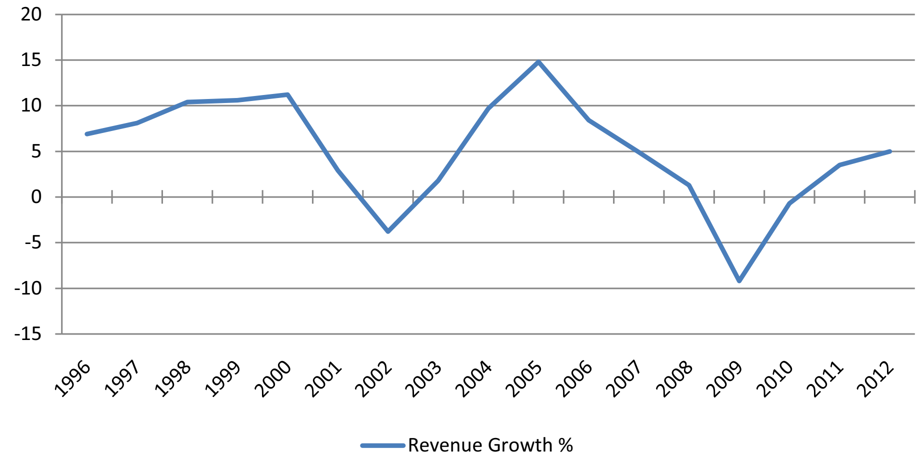
For each of the major categories of general fund revenue, the following describes the actual performance in FY 2010 and the estimate over the forecast horizon:

Individual income taxes

Collections of net individual income taxes (64 percent of total revenues) declined 4.1 percent in FY 2010, ahead of the annual forecast of a 5.5 percent decline. This was the second consecutive annual decline in net individual income tax, the first such occurrence in fifty years. Receipts of $9,088.3 million exceeded the official estimate by $128.2 million. Most of the surplus resulted from a better-than-expected performance in individual nonwithholding. Despite the surplus, collections of net individual income taxes finished at the lowest level since FY 2005.

Individual income tax collections are expected to rebound in FY 2011 and FY 2012, growing by 6.5 and 5.5 percent, respectively.

General Fund Revenue Growth Slowly Recovers



Sales and use taxes

Collections of sales and use taxes (22 percent of total revenues) were $3,082.5 million in FY 2010, $39.5 million ahead of the forecast. Collections increased 6.2 percent for the year compared with the forecast of 4.8 percent. The annual increase was attributable to the accelerated sales tax program enacted by the 2010 General Assembly. Adjusted for accelerated sales tax payments received in June, sales tax collections declined by 1.5 percent in FY 2010 compared with the policy-adjusted forecast of a 3.0 percent decline.

The forecast for FY 2011 sales tax collections have been increased by $133.8 million, an annual decline of 2.2 percent compared with the official forecast of a 6.5 percent decline. Adjusted for the accelerated sales tax program in FY 2010 and policy adjustments affecting the current biennium, economic-base growth is 3.7 percent in FY 2011. Sales tax has been revised upward by $141.3 million in FY 2012, growth of 3.3 percent compared with the official forecast of 3.2 percent.

Corporate income taxes

Corporate income tax collections (6 percent of total revenues), historically the most volatile revenue source, rebounded strongly in FY 2010 following back-to-back declines in the prior two years. Net collections totaled $806.5 million, an increase of 24.4 percent from the prior year, nearly double the projected annual growth rate of 12.8 percent. Annual collections were $75.8 million ahead of expectations, primarily due to a few large, one-time payments. These payments were related to mergers, acquisitions, and one-time taxable events.

In the December standard revenue forecast, the outlook has been lowered by $11.3 million in FY 2011, a decline of 3.1 percent from FY 2010 compared with the official forecast of a 1.7 percent decline. Collections have been decreased by $14.3 million in FY 2012, 5.5 percent growth compared with the official forecast of 5.8 percent growth.

Insurance company premiums taxes

Collections of taxes on the premiums of insurance companies (2 percent of total revenues) were $261.9 million in FY 2010 -- $19.4 million above the annual estimate. Net receipts increased by 2.7 percent compared with the forecasted decline of 4.9 percent. The annual surplus was primarily attributable to some large, one-time payments.

The insurance premiums tax forecast is essentially unchanged over the next two years. The December standard revenue forecast for FY 2011 is $3.3 million above the official forecast. For FY 2012, insurance premiums tax collections have been revised down by $1.8 million.

Wills, suits, deeds & contract fees

Wills, Suits, Deeds, and Contract Fees (2 percent of total revenues), of which the primary component is the recordation tax, fell short of expectations by $8.8 million in FY 2010. Collections finished the year at $290.2 million, a 7.7 percent decline from FY 2009 and below the official forecast of a 4.9 percent decline.

Collections in this source peaked at $695 million in FY 2006. The subsequent housing depression has led to four consecutive annual declines, with economic-base collections dropping 53 percent from peak levels. Trends early in FY 2010 pointed to stability in housing as the home buyer tax credit generated sales activity. However, absent federal stimulus, the housing market continues to decline.

In the December standard revenue forecast, wills has been reduced by $40.0 million in FY 2011, a decline of 5.6 percent from FY 2010. Base collections are expected to fall to the lowest level since FY 2001 in FY 2011. The outlook for wills has been reduced by $19.9 million in FY 2012, with base collections rebounding slightly.

Over half, 62.5 percent, 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 collections increased by 17 percent in FY 2010, and is expected to increase by 18.7 percent in FY 2011, and remain level for FY 2012. Nongeneral funds comprise about 62.5 percent of total state revenue during the 2010-2012 biennium.

Federal grants and other contracts

Federal grants are the largest single source of nongeneral fund revenue, about 41.2 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 FY 2010, federal grants and other contracts totaled $9.9 billion. This source is projected to increase by 0.4 percent to $10 billion in FY 2011, and decrease by 5.5 percent in FY 2012 to $9.6 billion. This pattern is caused by the temporary nature of the federal stimulus funding received from the American Recovery and Reinvestment Act (ARRA) in 2009. The stimulus funds peak in FY 2010 and begins a slow decline from FY 2012 onwards. This is, in addition, normal to the uncertainty surrounding the federal budget and future federal domestic spending.

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 FY 2010, institutional revenue collections were $2.2 billion or about 11.1 percent of all nongeneral fund revenue. Institutional revenues are projected to grow to $5.3 billion in FY 2011 and to $5.5 billion in FY 2012. These growth rates reflect the higher cost of services provided by these institutions.

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.

The FY 2010 revenue collections fell by 0.3 percent as compared to the official forecast of a 3.0 percent decline. The surplus in the FY 2010 collections can be attributed to unexpected growth in motor vehicle sales, and subsequently, the vehicle sales tax.

During the 2007 session of the General Assembly, legislation was passed that provided a considerable influx of new revenues into the Commonwealth Transportation fund. Motor Vehicle license fees, motor fuels taxes and miscellaneous revenues reflect these adjustments. In addition, beginning in FY 2009, one third of the insurance premiums tax and three cents of the twenty-five cent recordation tax is deposited to the Commonwealth Transportation Fund.

Forecasts for revenue collections in FY 2011 and FY 2012 are expected to increase, reversing the downward trend in Commonwealth Transportation Fund revenues over the last two years. For FY 2011 through FY 2012, total fund revenues from state sources are expected to be $2.3 billion the first year and $2.4 billion in FY 2012.

Unemployment insurance fund

Unemployment insurance tax collections rise and fall with trends in the economy.

Projected collections are expected to increase over the biennium, reflecting an increase in tax revenue. The current estimate anticipates increase in the pool taxes of 0.48 percent, 0.61 percent for calendar years 2011-2012 respectively. A fund building tax is imposed in calendar years 2011-2012. For FY 2011, unemployment tax collections are expected to increase to $672.6 million, while FY 2012 collections are expected to increase to $776.8 million.

Master Tobacco Settlement Agreement Funds

The Master Settlement Agreement (MSA) was signed between the major participating cigarette manufacturers and 45 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. Thus, the Fund now receives earnings on this endowment.

The Virginia Tobacco Settlement Fund receives the next 8.5 percent of the MSA allocation for the purposes of preventing tobacco use by minors and reducing childhood obesity. Programs targeted at minors include but are not limited educational and awareness programs.

The final portion of the allocation (41.5 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 2011 and FY 2012, it is anticipated that the Tobacco Indemnification and Community Revitalization Fund may expend up to 10.0 percent of the endowment an amount estimated at $77.0 million each year. The Virginia Tobacco Settlement Fund will take in $11.2 million, and $11.3 million over the same period. The Virginia Health Care Fund will receive $52.1 million and $58.6 million during this two year period.

Nongeneral fund forecast for FY 2010 — FY 2012 biennium*

	Actual 2010	Forecast 2011	Forecast 2012
Motor vehicle fuel tax	$888.2	$947.7	$959.4
Unemployment compensation payroll tax	431.4	664.4	776.8
Special highway tax from sales tax	490.7	478.1	521.0
Motor vehicle sales tax and use tax	444.1	475.0	499.0
Other taxes	766.1	858.2	865.5
Rights and Privileges	899.9	989.1	1000.8
Sale of property and commodities	1,651.3	1,496.3	1,549.3
Institutional revenue**	2,251.8	5280.2	5524.6
Interest dividends and rents	258.1	127.6	121.0
Federal grants and contracts	10,040.4	10,077.0	9,567.2
Master Tobacco Settlement Agreement Funds	60.8	63.3	69.9
Other revenue	1,651.0	2,092.2	2,164.9
Total nongeneral fund	**$19,833.8**	**$23,549.1**	**23,619.4**

* Based on November 2010 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.

** Per the Management Agreement between the tier 3 schools and the Commonwealth as set forth in Chapters 933 and 943 of the 2006 Acts of Assembly, the type 3 schools are not required to report actual revenue collections in CARS.