

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 can primarily be attributed to 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 2012 revenue collections post solid gain

In FY 2012, total general fund revenues grew 5.4 percent to \$15,846.7 million, exceeding the official forecast of 4.5 percent growth by \$123.1 million and reaching the level of FY 2008 collections. The total general fund, including revenues and transfers, exceeded the official forecast by \$129.2 million.

Payroll withholding and sales tax collections, 85 percent of total revenues and closely related to economic activity, exceeded the forecast by \$89.2 million. In addition, payments of individual refunds accounted for \$147.1 million of the revenue surplus. Collections of corporate income taxes came in at \$32.1 million above the forecast. Conversely, individual nonwithholding collections were \$94.3 million below forecast, and taxes on premiums of insurance companies were \$34.4 million below forecast. Collectively, the five major sources ended the year \$138.8 million above the forecast. Collections of miscellaneous taxes and other revenues were \$15.8 million below the forecast in FY 2012.

Total revenue collections in FY 2012 had a forecast variance of only 0.8 percent. The largest revenue source, net individual income tax, also recorded a variance of 0.8 percent. The nonwithholding component of individual income tax, one of the most volatile sources, had a variance of -3.8 percent, while the payroll withholding component finished the year close to the forecast with a variance of 0.3 percent. Sales and use tax collections, the second largest revenue source, had a forecast variance of 1.8 percent. Corporate income tax collections had a forecast variance of 3.9 percent. Wills, suits, deeds and contract fees - primarily recordation taxes - had a forecast variance of -0.3 percent; while taxes on insurance premiums had a variance of -12.0 percent. The remaining miscellaneous taxes and other revenues had a forecast variance of -2.3 percent.

General fund revenues expected to show moderate growth over the forecast horizon

The general fund revenue forecast for FY 2013 and FY 2014 includes 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.

Growth of total general fund revenues (excluding transfers) of 3.6 percent and 3.8 percent for FY 2013 and FY 2014, respectively, illustrates the sluggish nature of this economic recovery.

General Fund Forecast for FY 2012 - FY 2014*

	Actual FY 2012	Forecast FY 2013	Forecast FY 2014
Corporate income	\$859.9	\$820.9	\$839.8
Individual income	10,612.8	11,092.4	11,610.8
Insurance premiums	252.9	255.6	273.7
State sales & uses	3,121.5	3,248.8	3,303.5
Wills, suits, deeds & contract fees	322.1	336.5	336.5
Miscellaneous	677.4	662.3	672.8
Total revenues	\$15,846.7	\$16,416.5	\$17,037.1
ABC profits	63.8	64.6	65.5
Sales Tax (0.25%)	214.1	222.8	230.4
Transfers per the Appropriations Act	223.4	118.0	129.4
Total transfers	\$501.3	\$405.4	\$425.3
Total general fund	\$16,348	\$16,821.9	\$17,462.4

*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

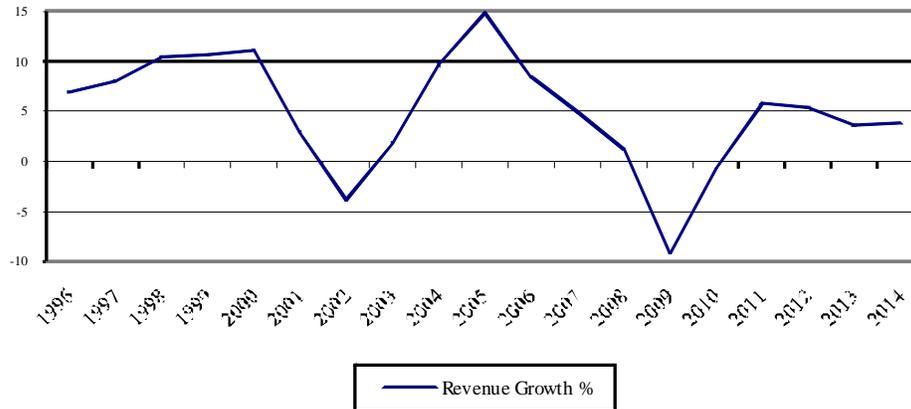
For each of the major categories of general fund revenue, the following describes the actual performance in FY 2012 and the estimate over the forecast horizon.

Individual income taxes

For the second consecutive year, collections of net individual income taxes (66 percent of total revenues) increased, growing 6.7 percent in FY 2012, ahead of the annual forecast of 5.9 percent growth. Receipts of \$10,612.8 million exceeded the official estimate by \$86.4 million. Most of the surplus resulted from lower-than-expected individual refunds.

Individual income tax collections are expected to post moderate gains over the next two fiscal years, growing by 4.5 percent and 4.7 percent, respectively.

General Fund Revenue Growth Slowly Recovers



Sales and use taxes

Collections of sales and use taxes (20 percent of total revenues) were \$3,121.5 million in FY 2012, \$55.5 million ahead of the forecast, a forecast variance of 1.8 percent. Collections grew 3.6 percent for the year compared with the forecast of 1.8 percent growth. Adjusting for accelerated sales tax payments received in June, sales tax collections grew 3.9 percent in FY 2012, compared with the economic-base forecast of a 2.5 percent increase.

Sales tax collections are expected to increase by 4.1 percent and 1.7 percent in FY 2013 and FY 2014, respectively. The low FY 2014 growth rate can be attributed to tax policy actions.

Corporate income taxes

Corporate income tax collections (5 percent of total revenues), historically the most volatile revenue source, also contributed to the surplus. Collections of \$859.9 million were \$32.1 million ahead of expectations, a forecast variance of 3.9 percent. Growth of 4.6 percent was well ahead of the forecast of 0.7 percent growth.

The corporate revenue model considers gross payments and refunds separately. Gross payments are modeled as a function of Virginia specific pre-tax corporate profits and the S&P 500 index. Refunds are driven by the historic ratio of gross payments to refund activity. Through the first quarter of FY 2013, actual collections are down 11.8 percent. Thus, corporate income tax collections in the forecast are expected to decline by 4.5 percent in FY 2013. In FY 2014, collections are expected to increase by 2.3 percent.

Insurance company premiums taxes

Collections of taxes on the premiums of insurance companies (2 percent of total revenues) were \$252.9 million in fiscal year 2012 - \$34.4 million below the annual estimate. Net receipts declined by 10.2 percent compared with the forecast of 2.0 percent growth.

Based on lower collections in fiscal year 2012, the forecast for insurance premium is for growth of only 1.1 percent in FY 2013 and then for much stronger growth of 7.1 percent in FY 2014.

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, were close to the forecast in FY 2012, lagging by only \$0.8 million, a variance of -0.3 percent. Collections finished the year at \$322.1 million, a 10.5 percent increase from FY 2011 and close to the official forecast of 10.8 percent growth.

The revenue model for wills, suits, deeds and contracts is based on refinancing activity and median home prices in Virginia, along with the yield on 30-year treasury bonds. The outlook for recordation taxes drives the other components of this source. As the housing market seems to be stabilizing, the forecast is \$336.5 million in FY 2013 and FY 2014, \$13.6 million more than the official forecast in each year.

60 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 declined by 2.1 percent in 2012, and are expected to increase by 26.8 percent in 2013, and 0.2 percent in 2014. Nongeneral funds are 60.0 percent of total state revenue during the 2012-2014 biennium.

Federal grants and other contracts

Federal grants are the largest single source of nongeneral fund revenue, about 37.1 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 2012, federal grants and other contracts totaled \$9.4 billion. This source is projected to increase by 0.8 percent to \$9.5 billion in 2013, and decline by 0.2 percent in 2014 to \$9.1 billion. It is also due 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 2013, institutional revenue collections are expected to be \$6.6 billion or about 26.3 percent of all nongeneral fund revenue. Institutional revenues are projected to grow to \$6.8 billion in 2014. Overall institutional revenues are projected to be 26.7 percent of all nongeneral fund revenues over the 2012-2014 biennium. 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 2012 revenue collections increased by 2.9 percent. The surplus in the 2012 collections can be attributed to continued 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.

Revenue collections in fiscal years 2013 and 2014 are expected to increase. For 2013 and 2014, total fund revenues from state sources are expected to \$2.5 billion in 2013, and \$2.6 billion in 2014.

Unemployment insurance fund

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

Projected collections are expected to increase in 2013 reflecting increases in the four-year moving average of benefit charges and in the pool tax rate. A decrease in 2014 is the result of a reversal of these trends. The current estimate anticipates increase in the pool taxes of 0.38 percent and 0.27 percent for calendar years 2013-2014, respectively. A fund building tax is imposed in calendar years 2013-2015. For 2013, unemployment tax collections are expected to increase to \$822.2 million, while 2014 collections are expected to decrease to \$808.9 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 2013 and 2014, 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 \$61.1.0 million in 2013 and \$61.7 in 2014. The Foundation for Healthy Youth is anticipated to take in \$11.4 million in 2013 and \$11.4 million in 2014. The Virginia Health Care Fund will receive \$48.8 million in 2013, and \$49.4 million in 2014. The indemnification from the Virginia Tobacco Settlement Fund ended in calendar 2012.

Nongeneral fund forecast for the 2012-2014 biennium*

	Actual FY 2012	Forecast FY 2013	Forecast FY 2014
Motor vehicle fuel tax	\$890.8	\$1,023.0	\$1,041.9
Unemployment compensation payroll tax	\$750.4	\$825.7	\$808.9
Special highway tax from sales tax	\$503.1	\$679.1	\$700.7
Motor vehicle sales tax and use tax	\$547.2	\$618.4	\$647.7
Other taxes	\$1,231.5	\$935.0	\$925.6
Rights and privileges	\$965.1	\$1,074.3	\$1,061.5
Sale of property and commodities	\$1,044.7	\$1,511.6	\$1,523.4
Assessment & receipts for special services	\$191.0	\$369.5	\$402.0
Institutional revenue**	\$2,607.4	\$6,594.5	\$6,803.2
Interest dividends and rents	\$125.6	\$88.6	\$103.4
Federal grants and contracts	\$9,419.1	\$9,727.0	\$9,384.6
Master Tobacco Settlement Agreement Funds	\$58.7	\$61.1	\$61.7
Other Revenue	\$1,441.5	\$1,540.4	\$1,562.8
Total	\$19,776.1	\$25,075.0	\$25,027.4

*Based on December 2012 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 tier 3 schools are not required to report actual revenue collections in CARS.