



The Economic Outlook And Revenue Forecast Through Fiscal Year 2014

**Prepared by the Virginia Department of Taxation
for Review by the
Governor's Advisory Council on Revenue Estimates**

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GOVERNOR'S CONFIDENTIAL WORKING PAPERS

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Introduction

Although tight credit and continuing job losses restrained consumers at the time of the meeting last November, the economy appeared to be in recovery from the recession. The general consensus of the Board was that the economy would expand at a slow pace, with significant downside risks. Federal stimulus policy was expected to buoy the recovery for a time, but growth was expected to slow as its effects faded. The Board, however, was mixed on the expected rate of growth, and was divided between the standard and pessimistic alternative forecasts. Based on the Board's comments and those of the members of the Governor's Advisory Board of Economists, the pessimistic alternative scenario was adopted as the basis for the fiscal year 2010 revenue forecast.

Economic conditions were close to the forecast in fiscal year 2010. The Commonwealth fared somewhat better than anticipated. Employment did not fall as far as expected, while income growth was close to expectations. The year ended with a small surplus in general fund revenue collections.

Recently, the National Bureau of Economic Research's Business Cycle Dating Committee determined that the recession began in December 2007 and hit bottom in June 2009, confirming the assessment at this time last year. The national economy continues to expand, although the pace has slowed. The Virginia economy is expanding. Employment modestly increased in July, August, and September, and the housing market is improving.

The current Appropriations Act for fiscal years 2011 and 2012 is Chapter 874. On page one of the Act, there is a table that shows the official revenue estimates available for appropriation. These revenue estimates were based on the official economic outlook developed last fall, which incorporated the advice of the Governor's Advisory Board of Economists and the Governor's Advisory Council on Revenue Estimates.

The purpose of this meeting of the Governor's Advisory Council on Revenue Estimates is to evaluate and recommend a "most probable" path for the Virginia economy and general fund revenue collections. This book presents Global Insight's October 2010 standard and pessimistic alternative economic forecasts for your consideration along with the November 2010 general fund revenue forecast for each scenario. Recommendations from this meeting will be incorporated into the general fund revenue forecast, which will become the basis for the budget which Governor McDonnell will introduce in December.

The Joint Advisory Board of Economists (JABE) was presented the September standard economic outlook at their meeting on October 20, 2010, which was somewhat weaker than the official economic forecast. Members were about evenly split, with half supporting the standard outlook and the other half choosing standard minus. The October standard outlook was adjusted consistent with comments of the JABE – specifically for slower employment growth in fiscal year 2011.

Section 1 of this book contains a review of the national economic performance during fiscal year 2010. Summaries of Global Insight's October standard and alternative national economic outlooks are presented.

Section 2 contains a review of Virginia's economic performance during fiscal year 2010. This is followed by a summary of the standard forecast developed by the Department of Taxation using the Global Insight October standard national forecast. The section closes with discussion of the Global Insight pessimistic alternative scenario.

Section 3 addresses fiscal year 2010 collections of general fund tax revenues and the November 2010 standard and alternative general fund revenue forecasts. Section 4 discusses non-general fund revenue collections and forecasts.

Historical and forecast economic data are contained in Appendix A. Historical general fund revenue data are contained in Appendix B. Detailed econometric output for major revenue sources is presented in Appendix C.

SECTION 1
THE U.S. ECONOMY

Section 1 The U.S. Economy

Introduction

This section begins with a review of fiscal year 2010, comparing actual U.S. economic results to the official forecast for the year. The official forecast for fiscal year 2010 was Global Insight's October 2009 U.S. pessimistic alternative scenario. At their meetings last fall, both the Governor's Advisory Board of Economists (GABE) and Governor's Advisory Council on Revenue Estimates (GACRE) were mixed on the most probable path for the Virginia economy. Based on members' comments and near-term pessimism, the official economic outlook for fiscal year 2010 was the pessimistic alternative scenario. Following the review of fiscal year 2010, the October 2010 standard forecast is summarized. The section concludes with an overview of the October 2010 pessimistic alternative scenario.

Tabular data are presented throughout this section. More detailed tabular data are presented in the appendices. Table A.1 in Appendix A shows quarterly historical data for major forecast variables from fiscal year 2008 through fiscal year 2010. Table A.2 shows quarterly data for the standard and pessimistic alternative forecasts through fiscal year 2014. Table A.3 displays annual historical and forecast data from fiscal year 1992 through fiscal year 2014. Table A.4 displays regional employment data from fiscal year 1992 through fiscal year 2014.

Review of Fiscal Year 2010

At the time of Global Insight's October 2009 forecast, the economy appeared to be in recovery. Job losses continued and credit remained tight, but some indicators were upbeat. The manufacturing sector was expanding, the housing market had improved, and business equipment spending was growing. Global Insight expected the recovery to continue at a slow pace.

Following is a summary of key assumptions included in Global Insight's October 2009 forecast and how those assumptions fared over the fiscal year. Table 1.1 on the following page compares the official forecast and actual results for fiscal year 2010.

- Real GDP rose 0.7 percent for the fiscal year, compared with the forecast of a 0.7 percent decline.

U.S. ECONOMY

Table 1.1 - Fiscal Year 2010 U.S. Forecast Performance

	<u>Forecast</u>	<u>Actual</u>	<u>Actual Minus Forecast</u>
<u>Output, Income, and Spending (% Change)</u>			
Real GDP	(0.7)	0.7	1.4
Total Personal Income	(0.8)	0.3	1.1
Wages and Salaries (51%)	(2.6)	(1.7)	0.9
Average Wage	0.8	1.3	0.5
Real Consumer Spending	0.2	0.4	0.2
<u>Employment and Labor Markets (% Change)</u>			
Total Nonagricultural Employment	(3.3)	(3.0)	0.3
Construction (5%)	(13.7)	(13.7)	0.0
Manufacturing (9%)	(10.6)	(8.2)	2.4
Trade, Transportation, and Utilities (19%)	(3.7)	(3.4)	0.3
Information (2%)	(6.6)	(5.2)	1.4
Financial Activities (6%)	(4.3)	(3.9)	0.4
Professional and Business Services (13%)	(4.1)	(3.6)	0.5
Education and Health Services (15%)	2.1	1.7	(0.4)
Leisure and Hospitality (10%)	(0.2)	(1.5)	(1.3)
Other Services (4%)	(1.1)	(2.1)	(1.0)
Government (17%)	(0.7)	(0.1)	0.6
Unemployment Rate (%)	10.1	9.8	(0.3)
<u>Interest Rates (% Change)</u>			
3-Month Treasury Bills	0.2	0.1	(0.1)
30-Year Treasury Bonds	4.0	4.4	0.4
<u>Prices (% Change)</u>			
CPI	0.2	1.0	0.8
GDP Deflator	1.0	0.5	(0.5)

The forecast data are from the October 2009 Global Insight U.S. pessimistic alternative scenario.

- Total nonagricultural employment fell 3.0 percent, close to the 3.3 percent drop in the forecast. As expected, construction, manufacturing, and information experienced the greatest deterioration from the prior year. The largest variance from the forecast was in the manufacturing, information, and leisure/hospitality sectors. Employment in the manufacturing and information sectors did not fall as far as anticipated, while the leisure/hospitality sector fell further than expected. The 13.7 percent decline in construction employment matched the forecast.

- Total personal income rose 0.3 percent in fiscal year 2010 compared with the forecast of a 0.8 percent decline. Wages and salaries fell 1.7 percent, 0.9 percentage point ahead of the forecast of a 2.6 percent drop.
- Real consumer spending rose 0.4 percent in fiscal year 2010, exceeding the forecast of 0.2 percent growth.
- The actual increase in the CPI of 1.0 percent exceeded the forecast by 0.8 percentage point, while the GDP deflator increased 0.5 percent – 0.5 percentage point lower than the predicted growth rate.
- Global Insight expected the Fed to keep the target federal funds rate steady at 0.0 percent to 0.25 percent throughout 2009, then begin to tighten in the third quarter of 2010. The target rate has remained unchanged.

Recent Developments in the U.S. Economy

The National Bureau of Economic Research's Business Cycle Dating Committee has determined that the recession began in December 2007 and ended in June 2009. In a further statement, the Committee added that it "...did not conclude that economic conditions since that month have been favorable or that the economy has returned to operating at normal capacity. Rather, the committee determined only that the recession ended and a recovery began in that month." At 18 months, this was the longest recession since World War II. The next longest post-war slumps were those of the early 1970s and the early 1980s, both of which lasted 16 months.

Current national indicators suggest the weak economic expansion will continue. According to the advance estimate, real GDP grew 2.0 percent at an annualized rate in the third quarter of 2010, following second-quarter growth of 1.7 percent. This marked the fifth consecutive quarter of growth. Much of the growth, however, is due to inventory rebuilding and federal stimulus spending, and the effects are fading.

Although the labor market remains weak, solid job growth in October suggests the recovery will be sustained. Payroll employment rose by 151,000 jobs in October, the first gain since May. In a separate report, the unemployment rate remained unchanged at 9.6 percent. Initial claims for unemployment increased by 20,000 to 457,000 during the week ending October 30, and the four-week moving average rose from 454,000 to 456,000.

Personal income fell in September, while consumption growth slowed. Personal income growth was down 0.1 percent from August, the first decline since September of last year. Consumer spending grew 0.2 percent in September, down from the 0.5 percent pace in July and August.

The Conference Board's index of leading indicators rose 0.3 percent in September, after increasing 0.1 percent in August and 0.2 percent in July. The small gain in the index is consistent with a slow recovery.

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The Conference Board's index of consumer confidence rose from 48.6 to 50.2 in October, but remained at its lowest level since February. Both the expectations and current conditions components increased, with the expectations component leading the gain. The index remains at a very low level, suggesting consumer spending is not likely to accelerate.

The expansion in the manufacturing sector picked up its pace in October, reversing the recent trend of slowing growth. The Institute of Supply Management index rose from 54.4 to 56.9 in October. This month's report signals a continuation of the recovery that began 15 months ago.

Inflation remains low – the CPI increased 0.1 percent in September from the previous month. Core inflation (excluding food and energy prices) was flat in September, as it was in August, and stands 0.8 percent above September of last year. This was the lowest 12-month increase in the index since March 1961.

The Federal Reserve announced at its September meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent.

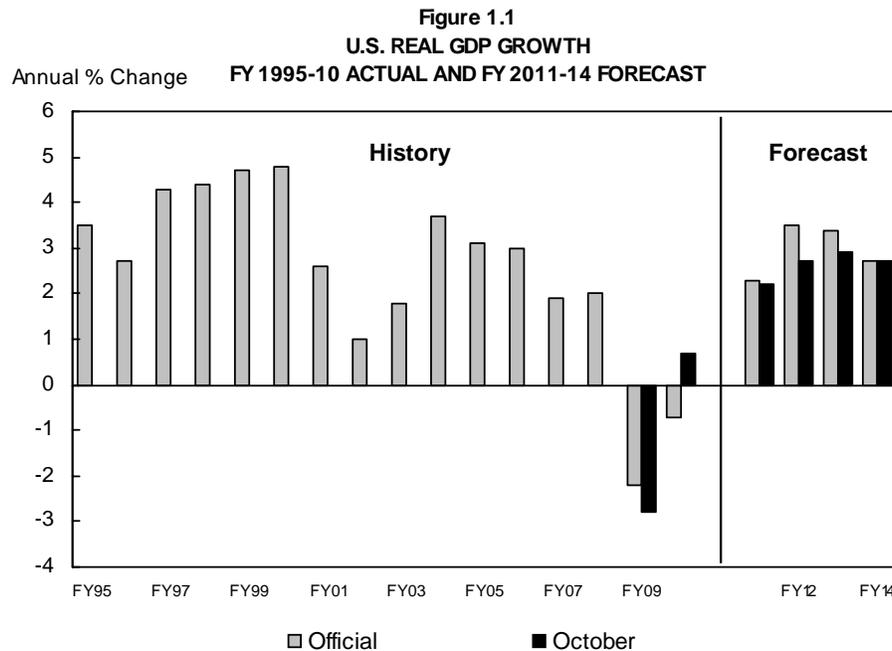
The Global Insight U.S. Standard Forecast for Fiscal Years 2011-2014

The official forecast for fiscal years 2011 and 2012 was Global Insight's October 2009 standard forecast. Tables 1.2 and 1.3 compare the official forecast with Global Insight's October 2010 standard and pessimistic alternative forecasts.

Global Insight believes the economic recovery has lost momentum, but does not expect a double-dip recession. Growth in the October 2010 standard forecast is weaker than the October 2009 official forecast.

Global Insight expects real GDP growth to average 1.7 percent over the rest of the year and then pick up in the first and second quarters of 2011. Real GDP is projected to grow 2.2 percent in fiscal year 2011, 2.7 percent in fiscal year 2012, and average about 3.0 percent in fiscal years 2013 and 2014. Particularly in fiscal years 2012 and 2013, growth is weaker than the official forecast. Figure 1.1 depicts annual growth in real GDP, comparing the official forecast with the October standard forecast.

In its October forecast, Global Insight paints a bleaker picture of the job market than the official forecast over the next two fiscal years. Payroll employment is expected to grow only 0.5 percent in fiscal year 2011 and 1.6 percent in fiscal year 2012, compared with the official estimate of 1.0 percent and 2.3 percent. The October forecast expects the unemployment rate to fall more slowly than predicted in the official forecast. In the October forecast, the unemployment rate falls slightly to 9.7 percent in fiscal year 2011 and 9.4 percent in fiscal year 2012.



Total personal income is expected to rise by 3.3 percent in fiscal year 2011, less than the official forecast of 3.8 percent growth. Income growth remains tepid over the forecast horizon, with growth of 3.5 percent in fiscal year 2012, 4.3 percent in fiscal year 2013, and 4.8 percent in fiscal year 2014. Similarly, the October forecast for the largest component of personal income, wages and salaries, is below the official estimate over the forecast horizon. Global Insight expects wages and salaries to rise 2.8 percent in fiscal year 2011 and 4.1 percent in fiscal year 2012.

In the October forecast, real consumer spending is expected to grow 2.1 percent in fiscal year 2011 and 2.3 percent in fiscal year 2012, close to the official forecast. In fiscal years 2013 and 2014, however, growth in consumer spending is half a percentage point lower than the official forecast.

The Fed is expected to implement more quantitative easing in November and then begin to raise interest rates in 2012. The standard forecast also assumes that emergency unemployment insurance benefits will be extended into 2011; “Making Work Pay” income tax cuts will be extended for one year; and all of the Bush tax cuts will be extended temporarily.

Global Insight Pessimistic Alternative Scenario

The pessimistic alternative forecast assumes the recovery stalls in the second half of 2010. In this scenario, unstable financial markets, tight credit, lower incomes, and a weak job market cause consumers to retrench and prevent the private sector from sustaining the expansion. The housing recession continues, and business investment is weaker as firms respond to the bleaker outlook.

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This scenario depicts the recession as W-shaped, with three consecutive quarterly declines in real GDP starting in the fourth quarter of 2010. Real GDP grows 0.8 percent in fiscal year 2011 and 0.3 percent in fiscal year 2012, then picks up to 2.4 percent per year in fiscal years 2013 and 2014. The labor market stagnates, with slight job losses over the next two fiscal years, while income growth is substantially weaker through fiscal year 2013.

There have been only two double-dip recessions in the last six decades – 1957/58 followed by 1960/61, and 1980 followed by 1981/82. In both cases, fiscal and/or monetary policy tightening contributed to the interruption of the expansion. In the early 1980s, high oil prices were also a factor. Global Insight does not expect any tightening of fiscal or monetary policy for at least another year, and oil prices are expected to stay relatively low. Global Insight assigns a 25 percent probability to this scenario occurring.

Table 1.2 - Fiscal Years 2009-2014 Official and October Forecasts
U.S. Economic Forecasts - Income and Other Indicators

		FY09	FY10	FY11	FY12	FY13	FY14
Output, Income, and Spending (% Change)							
Real GDP	Official (Oct '09)	(2.2)	(0.7)	2.3	3.5	3.4	2.7
	Oct Standard	(2.8)	0.7	2.2	2.7	2.9	2.7
	Oct Pessimistic			0.8	0.3	2.4	2.4
Total Personal Income	Official (Oct '09)	(0.1)	(0.8)	3.8	4.6	5.5	5.3
	Oct Standard	0.5	0.3	3.3	3.5	4.3	4.8
	Oct Pessimistic			2.5	0.8	3.1	5.3
Wages and Salaries (51%)	Official (Oct '09)	(1.3)	(2.6)	3.5	4.4	5.0	4.7
	Oct Standard	(1.9)	(1.7)	2.8	4.1	4.7	4.5
	Oct Pessimistic			1.9	1.5	3.6	4.4
Average Wage	Official (Oct '09)	1.0	0.8	2.5	2.0	2.5	3.0
	Oct Standard	0.8	1.3	2.3	2.5	2.4	2.7
	Oct Pessimistic			2.0	1.6	2.1	2.7
Real Consumer Spending	Official (Oct '09)	(1.4)	0.2	2.2	2.4	2.3	2.0
	Oct Standard	(1.7)	0.4	2.1	2.3	1.8	1.5
	Oct Pessimistic			1.2	0.8	0.3	0.5
Interest Rates (%)							
3-Month Treasury Bills	Official (Oct '09)	0.6	0.2	1.2	2.9	3.4	4.2
	Oct Standard		0.1	0.2	0.5	2.7	3.5
	Oct Pessimistic			0.1	0.2	1.8	4.6
30-Year Treasury Bonds	Official (Oct '09)	3.9	4.0	4.4	4.7	4.9	5.6
	Oct Standard		4.4	3.6	3.6	4.5	5.1
	Oct Pessimistic			3.0	3.2	4.6	6.1
Prices (% Change)							
CPI	Official (Oct '09)	1.4	0.2	1.6	2.3	1.9	1.9
	Oct Standard		1.0	1.3	1.8	2.0	2.0
	Oct Pessimistic			0.8	1.5	3.0	2.5
GDP Deflator	Official (Oct '09)	2.0	1.0	1.4	1.5	1.5	1.7
	Oct Standard	1.9	0.5	1.4	1.4	1.5	1.7
	Oct Pessimistic			1.3	0.8	1.5	2.0

The Official forecast for FY10 is Global Insight's October 2009 U.S. pessimistic alternative scenario. The Official forecast for FY11-14 is Global Insight's October 2009 U.S. standard forecast.

The Oct Standard forecast is Global Insight's October 2010 U.S. standard forecast.

The Oct Pessimistic forecast is Global Insight's October 2010 U.S. pessimistic alternative scenario.

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Table 1.3 - Fiscal Years 2009-2014 Official and October Forecasts
U.S. Economic Forecasts - Employment and Labor Markets

		FY09	FY10	FY11	FY12	FY13	FY14
Employment and Labor Markets (% Change)							
Total Nonagricultural Employment	Official (Oct '09)	(2.3)	(3.3)	1.0	2.3	2.4	1.7
	Oct Standard	(2.8)	(3.0)	0.5	1.6	2.3	1.7
	Oct Pessimistic			(0.1)	(0.1)	1.5	1.6
Construction (5%)	Official (Oct '09)	(9.6)	(13.7)	(4.6)	5.2	6.6	4.6
	Oct Standard	(11.4)	(13.7)	(3.4)	(0.7)	6.7	8.2
	Oct Pessimistic			(4.4)	(5.5)	2.6	9.0
Manufacturing (9%)	Official (Oct '09)	(7.2)	(10.6)	(1.4)	3.5	4.1	2.7
	Oct Standard	(7.7)	(8.2)	1.3	2.7	2.7	2.2
	Oct Pessimistic			0.2	(0.9)	2.5	3.7
Trade, Transportation, and Utilities (19%)	Official (Oct '09)	(3.1)	(3.7)	0.7	1.9	2.3	1.9
	Oct Standard	(3.9)	(3.4)	0.1	1.7	2.9	1.5
	Oct Pessimistic			(0.7)	0.3	2.2	0.8
Financial Activities (6%)	Official (Oct '09)	(3.2)	(4.3)	(0.4)	2.4	1.2	(0.1)
	Oct Standard	(3.3)	(3.9)	(1.0)	2.3	1.8	(0.2)
	Oct Pessimistic			(1.4)	1.4	0.7	(1.0)
Professional and Business Services (13%)	Official (Oct '09)	(4.0)	(4.1)	5.8	6.7	4.4	2.6
	Oct Standard	(4.7)	(3.6)	2.8	5.0	4.5	3.7
	Oct Pessimistic			1.0	0.1	4.4	4.1
Education and Health Services (15%)	Official (Oct '09)	2.6	2.1	3.2	2.2	0.9	1.0
	Oct Standard	2.4	1.7	1.8	2.0	1.3	1.1
	Oct Pessimistic			1.7	2.5	0.9	0.6
Leisure and Hospitality (10%)	Official (Oct '09)	(1.5)	(0.2)	1.6	0.3	2.0	1.0
	Oct Standard	(1.8)	(1.5)	0.3	(0.4)	0.8	0.3
	Oct Pessimistic			0.8	(0.8)	(0.6)	0.1
Government (17%)	Official (Oct '09)	0.9	(0.7)	(1.0)	0.1	1.7	1.6
	Oct Standard	1.0	(0.1)	(0.9)	(0.1)	0.9	1.0
	Oct Pessimistic			(1.1)	(1.5)	0.5	1.4
Unemployment Rate (%)	Official (Oct '09)	7.6	10.1	9.7	9.0	8.2	7.8
	Oct Standard	7.6	9.8	9.7	9.4	8.7	8.2
	Oct Pessimistic			10.1	10.7	10.4	9.8

The Official forecast for FY10 is Global Insight's October 2009 U.S. pessimistic alternative scenario. The Official forecast for FY11-14 is Global Insight's October 2009 U.S. standard forecast.

The Oct Standard forecast is Global Insight's October 2010 U.S. standard forecast.

The Oct Pessimistic forecast is Global Insight's October 2010 U.S. pessimistic alternative scenario.

SECTION 2
THE VIRGINIA ECONOMY

**Section 2
The Virginia Economy**

Introduction

This section begins with a review of fiscal year 2010, comparing actual economic results in Virginia to the official forecast for the year. The official forecast for fiscal year 2010 was based on Global Insight's October 2009 U.S. pessimistic alternative scenario. At their meetings last fall, both the Governor's Advisory Board of Economists (GABE) and Governor's Advisory Council on Revenue Estimates (GACRE) were mixed on the most probable path for the Virginia economy. Based on members' comments and near-term pessimism, the official economic outlook for fiscal year 2010 relied on the pessimistic alternative scenario. Following the review of fiscal year 2010, the October standard forecast is summarized. The section concludes with an overview of the October 2010 pessimistic alternative scenario.

Tabular data are presented throughout this section. More detailed tabular data are presented in the appendices. Table A.1 in Appendix A shows quarterly historical data for major forecast variables from fiscal year 2008 through fiscal year 2010. Table A.2 shows quarterly data for the two October 2010 forecasts through fiscal year 2014. Table A.3 displays annual historical and forecast data from fiscal year 1992 through fiscal year 2014. Table A.4 displays regional employment data from fiscal year 1992 through fiscal year 2014.

The state and regional employment data used in the forecast are the result of a methodology which uses unemployment insurance tax records (ES-202) data to fine tune the current employment statistics (CES) survey data. To ensure that the most current Virginia employment data are used in the forecast, ES-202 data through the fourth quarter of calendar year 2009 have been incorporated into the CES employment data series. The revised employment series is then seasonally adjusted. This process yields a projection of the annual benchmark revisions that the Virginia Employment Commission will release early next calendar year. The table below compares the base CES employment data series with the series incorporating ES-202 data.

<u>FY10</u>	<u>CES</u>	<u>ES-202</u>
Q1	-3.9%	-3.6%
Q2	-3.6%	-3.3%
Q3	-2.2%	-1.6%
Q4	-0.2%	0.1%
Annual	-2.5%	-2.1%

VIRGINIA ECONOMY

Review of Fiscal Year 2010

Overview

In the official forecast, the Virginia economy was expected to register its worst performance in the post-war era in fiscal year 2010. Both employment and wages and salaries were projected to post the weakest annual performance in a generation. The ongoing housing depression, credit freeze, and persistently weak consumer fundamentals were expected to be a further drag on the broader economy. Table 2.1 compares the official forecast and actual results for fiscal year 2010.

Table 2.1 - Fiscal Year 2010 Virginia Forecast Performance

	Forecast	Actual	Actual Minus Forecast
<u>Income (% Change)</u>			
Total Personal Income	1.3	1.0	(0.3)
Wages and Salaries (55%)	0.1	0.3	0.2
Average Wage	2.8	2.5	(0.3)
Dividends, Interest, and Rent (16%)	(1.7)	(4.8)	(3.1)
Supplements to Wages and Salaries (15%)	5.7	3.5	(2.2)
Proprietor's Income (6%)	0.3	(0.7)	(1.0)
Net Transfer Payments (5%)	19.5	26.4	6.9
<u>Employment and Labor Markets (% Change)</u>			
Total Nonagricultural Employment	(2.6)	(2.1)	0.5
Construction and Mining (5%)	(12.3)	(11.8)	0.5
Manufacturing (6%)	(11.5)	(8.1)	3.4
Trade, Transportation, and Utilities (17%)	(2.9)	(2.8)	0.1
Information (2%)	(8.1)	(7.8)	0.3
Financial Activities (5%)	(5.0)	(3.3)	1.7
Professional and Business Services (18%)	(3.4)	(1.5)	1.9
Education and Health Services (13%)	1.8	2.9	1.1
Leisure and Hospitality (10%)	1.7	(0.7)	(2.4)
Other Services (5%)	(0.8)	0.1	0.9
Government (19%)	0.7	(0.6)	(1.3)
Unemployment Rate (%)	7.5	7.0	(0.5)

The forecast data are based on the October 2009 Global Insight U.S. pessimistic alternative scenario and the corresponding Virginia state forecast developed by the Department of Taxation.

Following is a review of key assumptions included in the October 2009 official forecast compared with the actual performance.

Income

Most of Virginia's income statistics were near projected growth in fiscal year 2010. Total personal income increased 1.0 percent – 0.3 percentage point below forecast. Income from wages and salaries, which accounted for 55 percent of total personal income in fiscal year 2010, grew 0.3 percent from the prior year, slightly ahead of the forecast of 0.1 percent growth. Average wage growth of 2.5 percent was 0.3 percentage point below the forecast. Dividends, interest, and rental income fell 4.8 percent, below the projection of a 1.7 percent decline. Proprietor's income fell 0.7 percent in fiscal year 2010, lagging the forecast by 1.0 percentage point. Net transfer payments rose 26.4 percent compared with the forecast of 19.5 percent growth.

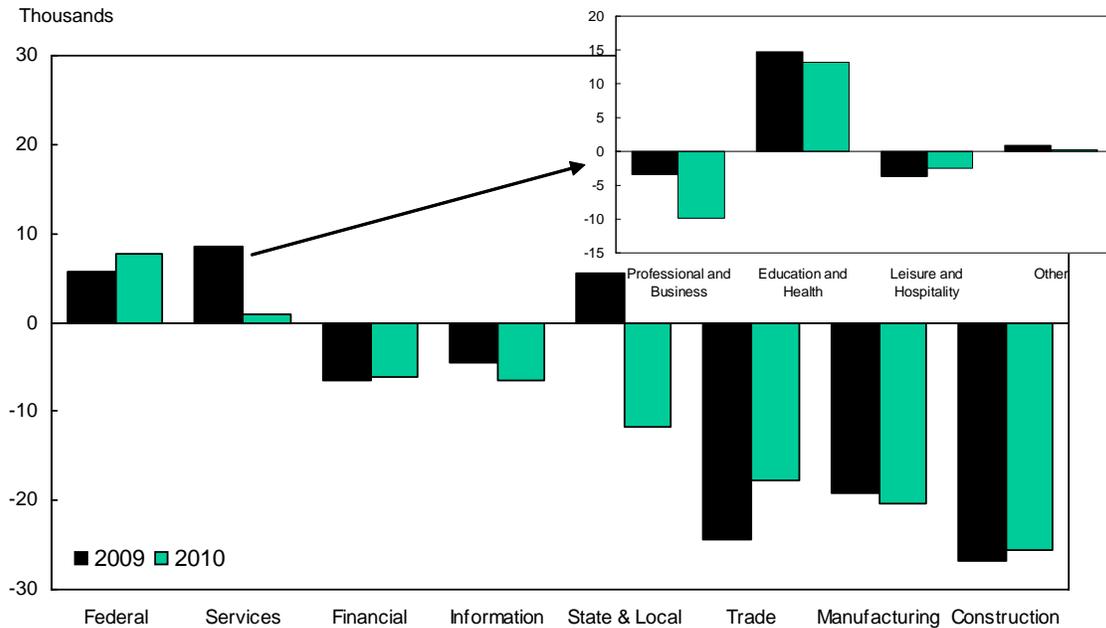
Taken together, the components of personal income directly attributable to economic activity in the Commonwealth were below expectations in fiscal year 2010. This underperformance was more than offset by a sharper-than-expected increase in government transfer payments. In fact, net transfer payments added over one percentage point to total personal income growth in fiscal year 2010, the largest contribution since fiscal year 1975 when the U.S. was suffering through an inflationary recession.

Employment

Payroll employment in Virginia did not fall as far as expected in fiscal year 2010. In the official forecast, total nonagricultural employment was projected to decline 2.6 percent, with the average annual employment level falling by 95,600 jobs. Actual employment losses were 79,400, a decline of 2.1 percent. As expected, the decline was led by losses in construction, manufacturing, and trade. Collectively, these sectors shed 63,700 jobs in fiscal year 2010. Only education and health and other services posted annual employment increases. Overall, employment growth in eight out of ten major sectors exceeded the official forecast in fiscal year 2010.

In terms of the number of jobs, the largest positive variance was in the high-paying professional and business services sector. The loss of 9,900 jobs in this sector was far below the 22,000 projected in the forecast. This was followed by manufacturing, which lost 9,000 fewer jobs than anticipated, and education and health services, which added 5,200 more jobs than projected. Employment in leisure and hospitality services and government was below expectations in fiscal year 2010, losing a combined 6,400 jobs compared with the forecast of an 11,100 addition. Taken together, construction and financial activities, the two sectors most closely related to the housing market, declined by 31,800 jobs in fiscal year 2010. This was the fourth consecutive annual decline in housing-related employment and brings cumulative losses over the four-year period to 84,400, a drop of nearly twenty percent from the fiscal year 2006 peak employment base. Figure 2.1 displays fiscal year 2010 job gains and losses by sector compared with fiscal year 2009.

Figure 2.1
VIRGINIA JOB GAINS/LOSSES BY SECTOR
FISCAL YEARS 2009 AND 2010



Tables 2.4 and 2.5 provide an overview of regional employment in Virginia. The better-than-expected performance of total nonagricultural employment statewide in fiscal year 2010 was driven by Northern Virginia. In this region, which represents 36 percent of all jobs in the state, total employment fell by 0.8 percent compared with the forecast of a 1.6 percent decline. Actual employment losses were 10,100, 11,500 better than projected. The professional and business services sector added 2,700 net new jobs in fiscal year 2010, contrary to the forecast of a 6,500 job decline. The housing depression hit Northern Virginia hard again in fiscal year 2010, with the construction and financial activities sectors losing a combined 9,200 jobs for the year. Trade, transportation, and utilities lost fewer jobs than anticipated; however, this was offset by a below-forecast performance in leisure and hospitality services and government.

Employment in the Norfolk-Virginia Beach-Newport News MSA (20 percent of state employment) contracted more than expected in fiscal year 2010, declining 2.5 percent compared with the forecast of a 1.3 percent decline. The region lost 18,800 jobs in fiscal year 2010. As expected, the decline was attributable to losses in housing-related employment and trade, which together shed 12,300 jobs. As with Northern Virginia, professional and business services finished the year ahead of expectations, declining 3.2 percent compared with the forecast of a 3.8 percent decline. Employment in the tourism industry, long a staple of the area economy, declined more than expected, while education and health services added fewer jobs than anticipated. The largest negative variance was in the government sector, which declined by 900 jobs compared to the forecast of a 3,600 gain. The variance was attributable to an unexpected drop in local government employment.

Employment in the Richmond-Petersburg MSA (16 percent of state employment) fell 3.3 percent (20,700 jobs) in fiscal year 2010, below the forecast of a 2.6 percent decline. As with Hampton Roads, the largest negative variance was in the government sector. Job losses were broad-based across sectors, with the bulk of the losses in construction (-4,300 jobs), professional and business services (-4,300 jobs), and trade (-3,800 jobs). Education and health services increased 3.7 percent in fiscal year 2010, below expectations.

Outside of the three major metro areas, the remainder of the state (28 percent of state employment) shed 29,800 jobs in fiscal year 2010, less than the forecast of 48,200 jobs. Education/health and professional/business services accounted for most of the positive variance. Losses in trade and leisure and hospitality services were larger than anticipated. Government employment, projected to fall by 4,100 jobs only declined by 2,200 jobs.

Recent Developments in the Virginia Economy

The Virginia economy is recovering. Employment is increasing, albeit at a modest pace, housing permits have stopped falling and are showing signs of stability, and house prices are recovering at an above-average pace compared with national rates. While recent indicators have been mixed, the overall trend is no longer predominantly negative.

Employers added jobs for the third consecutive month in September – July 2010 was the first month of job growth since August 2008. Payroll employment in the Commonwealth grew 0.8 percent in September from September of last year. The pace of growth was modest, but steady, in Northern Virginia and Hampton Roads, while Richmond-Petersburg saw a slight job loss in September. Compared with September of last year, Northern Virginia posted a gain of 1.2 percent, Hampton Roads grew 0.8 percent, and Richmond-Petersburg fell 0.3 percent. The unemployment rate fell from 7.0 percent to 6.5 percent in September, well below the peak of 7.8 percent in February and the lowest rate since November 2009.

The Virginia Leading Index rose 0.1 percent in August, its second consecutive increase. Only two of the five components deteriorated in August – initial claims for unemployment and auto registrations.

The October Standard Forecast for Fiscal Years 2011 through 2014

The official forecast for fiscal years 2011 and 2012 was based on Global Insight's October 2009 standard forecast. Following the dismal performance in fiscal year 2010, the economy was expected to improve in fiscal year 2011; however, growth in key indicators was expected to remain below trend rates through fiscal year 2012. Tables 2.2 and 2.3 compare the official forecast with the October 2010 standard and pessimistic alternative forecasts. Tables 2.4 and 2.5 provide an overview of projected regional employment in Virginia.

VIRGINIA ECONOMY

Growth in employment and income in the official forecast was projected to be modest in fiscal year 2011, with growth at or below trend through fiscal year 2012. The October standard forecast maintains this outlook. Virginia is expected to outperform the nation in terms of employment and wage growth over the next two fiscal years. Figure 2.2 compares employment growth in Virginia with that of the nation, while Figure 2.3 provides the same comparison for personal income.

Figure 2.2
U.S. AND VIRGINIA EMPLOYMENT GROWTH
HISTORY AND FORECAST - FISCAL YEARS 1992-2014

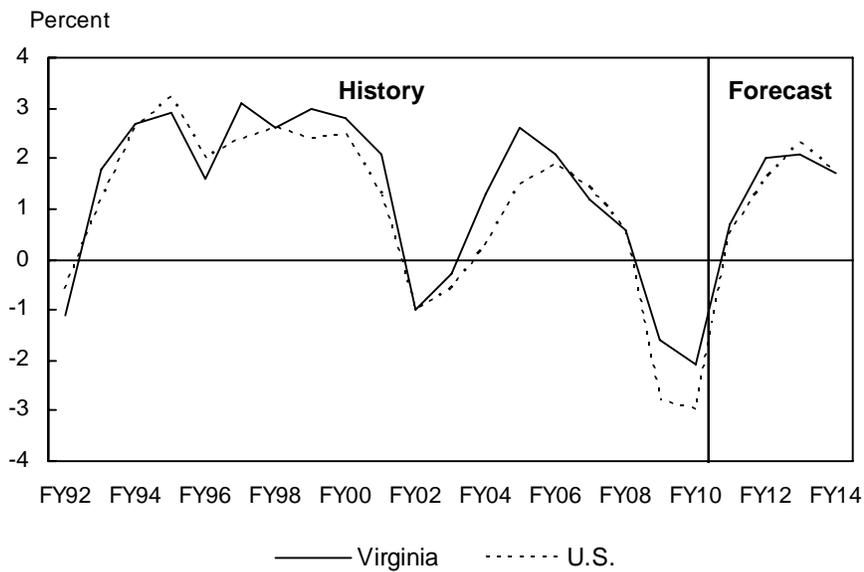
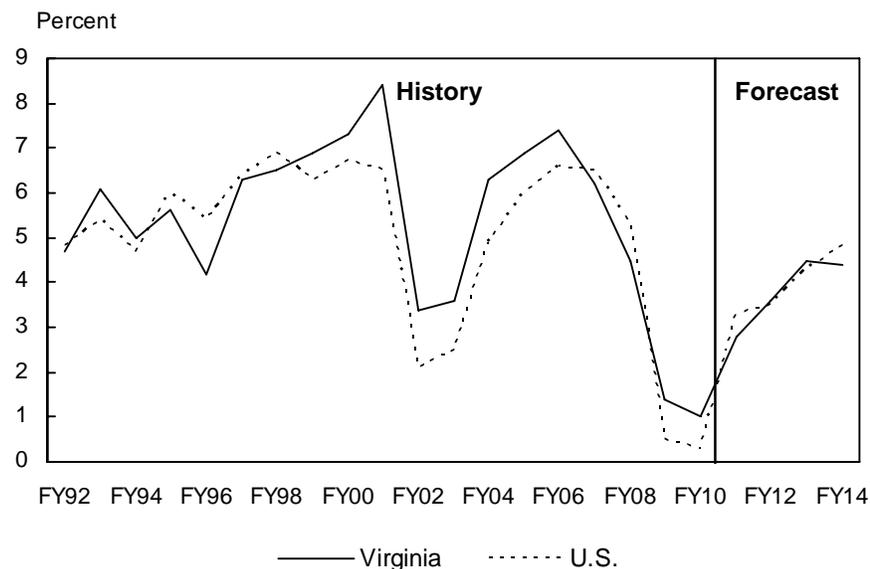
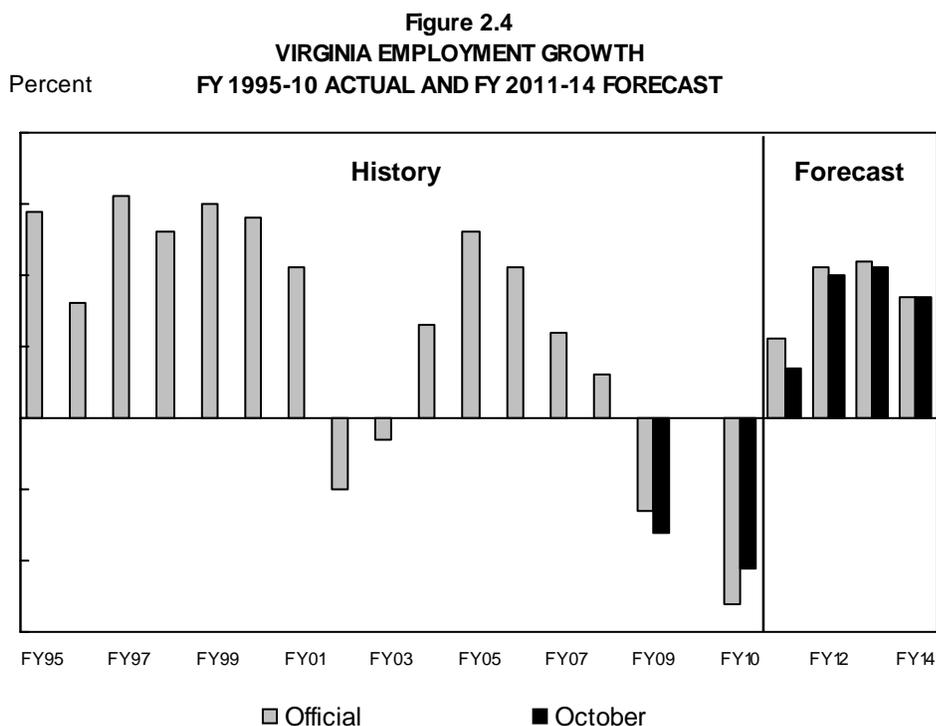


Figure 2.3
U.S. AND VIRGINIA PERSONAL INCOME GROWTH
HISTORY AND FORECAST - FISCAL YEARS 1992-2014





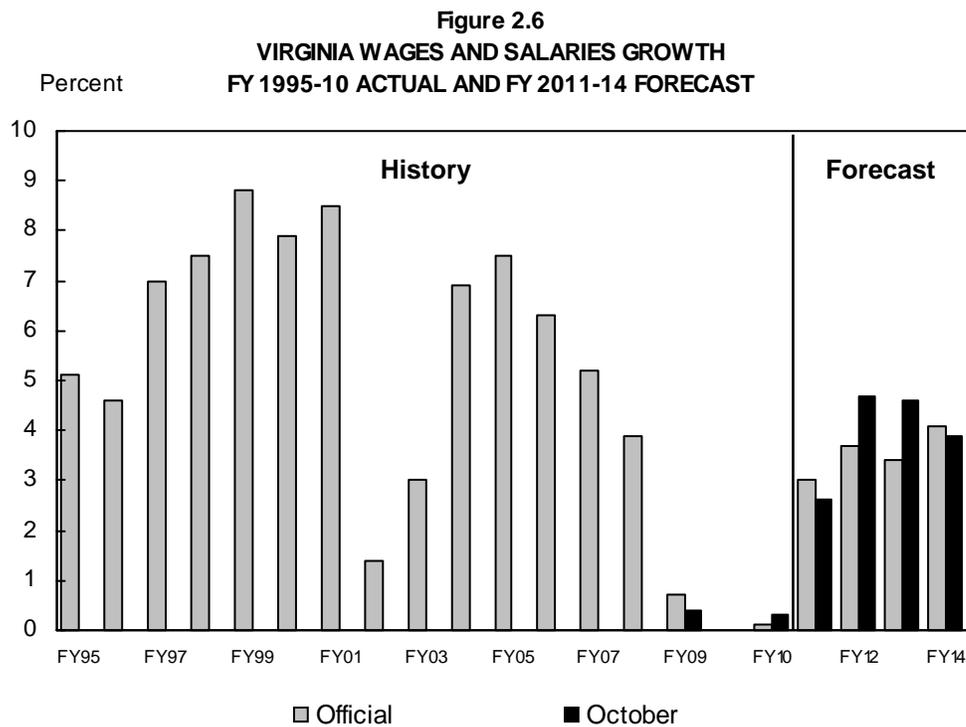
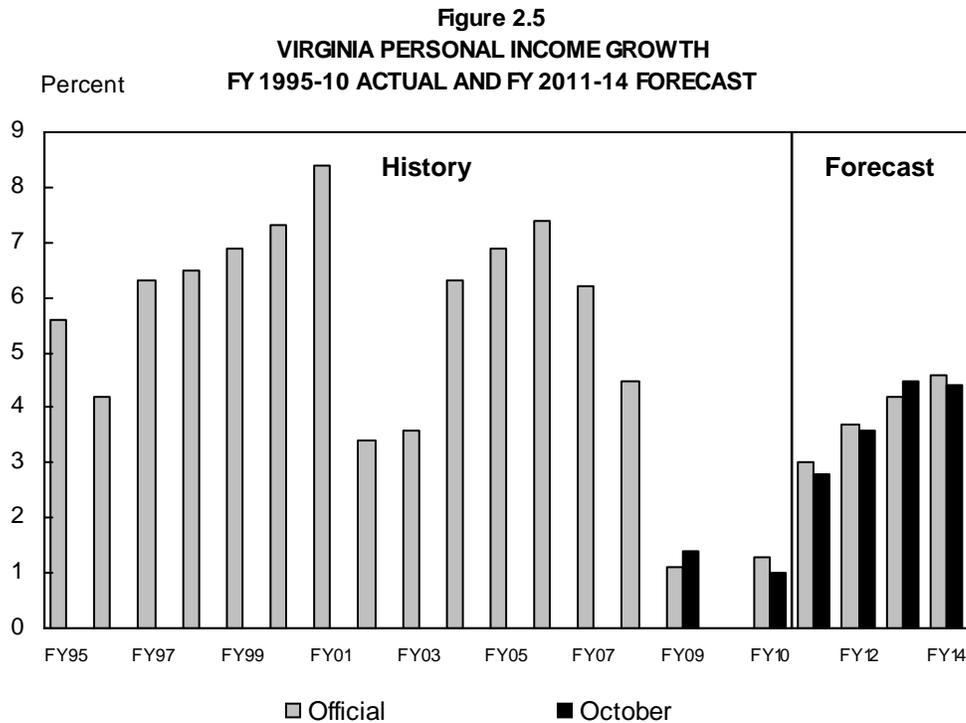
As shown in Figure 2.4, according to the October standard forecast, after declining 2.1 percent in fiscal year 2010, total nonagricultural employment is expected to increase 0.7 percent (25,400 jobs) in fiscal year 2011, slightly slower than the official forecast. Gains in professional and business services, leisure and hospitality, and education and health services are expected to lead the way, while construction, manufacturing, and financial activities will continue to drag on growth. Employment is expected to increase 2.0 percent in fiscal year 2012, similar to the official forecast of a 2.1 percent increase. Employment growth is projected to be 2.1 percent and 1.7 percent in fiscal years 2013 and 2014, respectively.

Total personal income growth is essentially unchanged over the next two fiscal years, with growth projected at 2.8 percent in fiscal year 2011 and 3.6 percent in fiscal year 2012. Total personal income growth is projected to be about 4.5 percent in fiscal years 2013 and 2014, below the historical trend rate of 5.4 percent. Income from wages and salaries has been revised down by 0.4 percentage point in 2011 for an increase of 2.6 percent, while fiscal year 2012 has been revised up a full percentage point to 4.7 percent growth.

Revisions to the outlook for non-wage income are mixed over the next two years. Dividends, interest, and rental income has been revised upward in fiscal year 2011 and down in fiscal year 2012, while the outlook for proprietor's income has been revised down in fiscal year 2011 to 4.1 percent. Contrary to the last two fiscal years, net transfer payments are projected to play a less dominant part in total personal income, with growth for this component expected to slow to 4.1 percent in fiscal year 2011 and then decline by 3.5 percent in fiscal year 2012.

VIRGINIA ECONOMY

Figures 2.5 and 2.6 chart the annual percent change in personal income and wages and salaries, comparing the official forecast with the October standard forecast.



Global Insight Pessimistic Alternative Scenario

In the Virginia pessimistic alternative forecast, economic growth stalls in the latter part of 2010, with an outright employment contraction in the spring of 2011. The private sector recovery is undercut as unstable financial markets, tight credit, and persistently high unemployment cause consumers to retrench. Employment increases only 0.2 percent in fiscal year 2011 and 0.6 percent in fiscal year 2012. Total personal income growth averages only 2.1 percent over the next two years and, similar to wages and salaries, is 1.6 percentage points below the baseline scenario in fiscal year 2012. Growth remains below the standard forecast in fiscal year 2013 before normalizing in fiscal year 2014.

VIRGINIA ECONOMY

Table 2.2 - Fiscal Years 2009-2014 Official and October Forecasts
Virginia Economic Forecasts - Employment and Labor Markets

		FY09	FY10	FY11	FY12	FY13	FY14
Employment and Labor Markets (% Change)							
Total Nonagricultural Employment	Official (Oct '09)	(1.3)	(2.6)	1.1	2.1	2.2	1.7
	Oct Standard	(1.6)	(2.1)	0.7	2.0	2.1	1.7
	Oct Pessimistic		(2.1)	0.2	0.6	1.2	1.5
Construction and Mining (5%)	Official (Oct '09)	(10.1)	(12.3)	(5.1)	5.4	7.1	5.0
	Oct Standard	(10.9)	(11.8)	(3.0)	4.7	7.2	7.5
	Oct Pessimistic		(11.8)	(4.1)	(0.2)	3.3	8.2
Manufacturing (6%)	Official (Oct '09)	(6.3)	(11.5)	(1.7)	4.0	4.8	3.2
	Oct Standard	(7.0)	(8.1)	(1.1)	3.4	3.3	2.0
	Oct Pessimistic		(8.1)	(2.4)	(0.7)	3.1	3.8
Trade, Transportation, and Utilities (17%)	Official (Oct '09)	(2.0)	(2.9)	0.5	1.1	1.6	1.5
	Oct Standard	(3.7)	(2.8)	1.4	1.4	2.7	1.2
	Oct Pessimistic		(2.8)	0.5	0.1	2.3	0.4
Financial Activities (5%)	Official (Oct '09)	(4.0)	(5.0)	(0.6)	3.4	1.8	(0.1)
	Oct Standard	(3.4)	(3.3)	(0.7)	1.8	1.7	0.0
	Oct Pessimistic		(3.3)	(1.2)	0.6	0.2	(1.1)
Professional and Business Services (18%)	Official (Oct '09)	(1.0)	(3.4)	4.3	5.9	3.7	2.1
	Oct Standard	(0.5)	(1.5)	1.6	4.4	3.1	3.0
	Oct Pessimistic		(1.5)	0.3	0.5	2.5	3.2
Education and Health Services (13%)	Official (Oct '09)	4.8	1.8	2.3	2.4	2.6	2.3
	Oct Standard	3.4	2.9	2.0	2.9	1.6	1.2
	Oct Pessimistic		2.9	1.9	3.5	1.1	0.7
Leisure and Hospitality (10%)	Official (Oct '09)	(0.3)	1.7	1.3	0.2	1.6	0.8
	Oct Standard	(1.1)	(0.7)	1.7	2.1	1.7	0.3
	Oct Pessimistic		(0.7)	2.1	1.8	0.4	0.1
Government (19%)	Official (Oct '09)	1.6	0.7	0.6	(1.0)	(0.1)	0.5
	Oct Standard	1.7	(0.6)	(0.6)	(2.6)	(1.5)	1.1
	Oct Pessimistic		(0.6)	(0.6)	(2.7)	(1.3)	1.3
Unemployment Rate (%)	Official (Oct '09)	5.5	7.5	6.9	6.1	5.3	4.8
	Oct Standard	5.4	7.0	7.3	7.0	6.6	6.2
	Oct Pessimistic		7.0	7.6	8.0	7.8	7.4

The Official forecast for FY10 is based on Global Insight's October 2009 U.S. pessimistic alternative scenario. The Official forecast for FY11-14 is based on Global Insight's October 2009 U.S. standard forecast.

The Oct Standard forecast from the Department of Taxation is based on Global Insight's October 2010 U.S. standard forecast.

The Oct Pessimistic forecast from the Department of Taxation is based on Global Insight's October 2010 U.S. pessimistic alternative scenario.

Table 2.3 - Fiscal Years 2009-2014 Official and October Forecasts
Virginia Economic Forecasts - Income

		FY09	FY10	FY11	FY12	FY13	FY14
Income (% Change)							
Total Personal Income	Official (Oct '09)	1.1	1.3	3.0	3.7	4.2	4.6
	Oct Standard	1.4	1.0	2.8	3.6	4.5	4.4
	Oct Pessimistic		1.0	2.3	2.0	3.2	4.6
Wages and Salaries (55%)	Official (Oct '09)	0.7	0.1	3.0	3.7	3.4	4.1
	Oct Standard	0.4	0.3	2.6	4.7	4.6	3.9
	Oct Pessimistic		0.3	1.9	3.0	3.5	3.5
Average Wage	Official (Oct '09)	2.0	2.8	1.9	1.6	1.2	2.4
	Oct Standard	2.1	2.5	1.8	2.6	2.5	2.2
	Oct Pessimistic		2.5	1.8	2.4	2.2	2.0
Dividends, Interest, and Rent (16%)	Official (Oct '09)	(2.3)	(1.7)	2.7	5.1	7.6	6.1
	Oct Standard	(2.9)	(4.8)	3.0	2.6	6.1	5.5
	Oct Pessimistic		(4.8)	1.6	(2.9)	2.4	8.4
Supplements to Wages and Salaries (15%)	Official (Oct '09)	4.1	5.7	4.3	5.4	5.5	5.3
	Oct Standard	5.2	3.5	3.6	4.5	5.3	5.3
	Oct Pessimistic		3.5	3.6	3.8	4.3	4.6
Proprietor's Income (6%)	Official (Oct '09)	(3.8)	0.3	5.2	1.9	(0.4)	0.0
	Oct Standard	(2.5)	(0.7)	4.1	1.5	(0.4)	(0.1)
	Oct Pessimistic		(0.7)	3.9	1.1	(0.4)	(0.3)
Net Transfer Payments (5%)	Official (Oct '09)	28.3	19.5	(5.8)	(3.6)	5.5	9.3
	Oct Standard	34.8	26.4	4.1	(3.5)	2.5	10.1
	Oct Pessimistic		26.4	6.4	2.5	5.9	12.1

The Official forecast for FY10 is based on Global Insight's October 2009 U.S. pessimistic alternative scenario. The Official forecast for FY11-14 is based on Global Insight's October 2009 U.S. standard forecast.

The Oct Standard forecast from the Department of Taxation is based on Global Insight's October 2010 U.S. standard forecast.

The Oct Pessimistic forecast from the Department of Taxation is based on Global Insight's October 2010 U.S. pessimistic alternative scenario.

VIRGINIA ECONOMY

Table 2.4 - Fiscal Years 2009-2012 October Standard Forecast
Virginia Economic Forecast - Regional Employment

		FY09	FY10	FY11	FY12
Region by Sector (% Change)					
Northern Virginia (36%) *	Total Nonagricultural Employment	(0.8)	(0.8)	0.7	2.5
	Construction and Mining (5%) **	(11.8)	(11.0)	(6.8)	4.2
	Trade, Transportation, and Utilities (15%)	(3.3)	(2.5)	0.7	1.9
	Financial Activities (5%)	(3.6)	(1.8)	(1.3)	2.0
	Professional and Business Services (28%)	1.1	0.8	1.6	4.7
	Education and Health Services (10%)	3.6	4.2	3.1	3.4
	Leisure and Hospitality (9%)	(0.5)	0.8	6.3	1.6
	Government (17%)	2.3	0.4	(2.0)	(2.4)
Hampton Roads (20%)	Total Nonagricultural Employment	(2.4)	(2.5)	0.7	1.5
	Construction and Mining (5%)	(11.3)	(13.0)	0.4	4.9
	Trade, Transportation, and Utilities (18%)	(5.8)	(3.3)	1.5	1.4
	Financial Activities (5%)	(5.1)	(6.3)	(0.1)	1.7
	Professional and Business Services (14%)	(1.3)	(3.2)	3.1	4.2
	Education and Health Services (13%)	1.9	1.8	2.3	3.2
	Leisure and Hospitality (11%)	(2.8)	(1.7)	(0.9)	3.0
	Government (21%)	1.3	(0.6)	0.1	(3.6)
Richmond (16%)	Total Nonagricultural Employment	(2.0)	(3.3)	0.1	1.5
	Construction and Mining (6%)	(13.8)	(11.0)	0.6	3.7
	Trade, Transportation, and Utilities (19%)	(2.7)	(3.3)	0.7	1.5
	Financial Activities (7%)	(2.7)	(3.6)	(0.3)	1.1
	Professional and Business Services (15%)	(3.6)	(4.4)	1.9	3.3
	Education and Health Services (14%)	5.8	3.7	2.4	2.3
	Leisure and Hospitality (8%)	(0.7)	(3.7)	(1.9)	3.7
	Government (18%)	1.5	(1.6)	(0.2)	(3.7)
Balance (28%)	Total Nonagricultural Employment	(1.8)	(2.9)	1.0	2.0
	Construction and Mining (5%)	(7.8)	(12.5)	(3.1)	5.7
	Trade, Transportation, and Utilities (19%)	(3.0)	(2.3)	2.5	0.7
	Financial Activities (4%)	(2.2)	(2.7)	(0.5)	2.6
	Professional and Business Services (9%)	(2.3)	(5.3)	(0.1)	4.5
	Education and Health Services (15%)	3.0	2.1	0.6	2.6
	Leisure and Hospitality (9%)	(0.4)	(0.3)	0.3	1.3
	Government (21%)	1.4	(1.0)	0.2	(1.5)

The October Standard forecast from the Department of Taxation is based on Global Insights' October 2010 U.S. standard forecast.

* Represents the percentage share of Virginia.

** Represents the percentage share of total employment within the region.

Table 2.5 - Fiscal Years 2009-2012 October Pessimistic Alternative Scenario
Virginia Economic Forecast - Regional Employment

Region by Sector (% Change)		FY09	FY10	FY11	FY12
Northern Virginia (36%) *	Total Nonagricultural Employment	(0.8)	(0.8)	0.1	1.0
	Construction and Mining (5%) **	(11.8)	(11.0)	(8.1)	(2.2)
	Trade, Transportation, and Utilities (15%)	(3.3)	(2.5)	(0.2)	0.4
	Financial Activities (5%)	(3.6)	(1.8)	(1.8)	0.8
	Professional and Business Services (28%)	1.1	0.8	0.4	1.4
	Education and Health Services (10%)	3.6	4.2	2.9	4.2
	Leisure and Hospitality (9%)	(0.5)	0.8	6.8	1.3
	Government (17%)	2.3	0.4	(2.0)	(2.4)
Hampton Roads (20%)	Total Nonagricultural Employment	(2.4)	(2.5)	0.2	0.1
	Construction and Mining (5%)	(11.3)	(13.0)	(0.5)	0.6
	Trade, Transportation, and Utilities (18%)	(5.8)	(3.3)	0.5	(0.1)
	Financial Activities (5%)	(5.1)	(6.3)	(0.8)	0.3
	Professional and Business Services (14%)	(1.3)	(3.2)	1.2	(0.9)
	Education and Health Services (13%)	1.9	1.8	2.2	3.7
	Leisure and Hospitality (11%)	(2.8)	(1.7)	(0.5)	2.7
	Government (21%)	1.3	(0.6)	0.1	(3.6)
Richmond (16%)	Total Nonagricultural Employment	(2.0)	(3.3)	(0.5)	0.1
	Construction and Mining (6%)	(13.8)	(11.0)	(0.3)	(0.5)
	Trade, Transportation, and Utilities (19%)	(2.7)	(3.3)	(0.4)	(0.1)
	Financial Activities (7%)	(2.7)	(3.6)	(0.8)	(0.0)
	Professional and Business Services (15%)	(3.6)	(4.4)	0.5	(0.6)
	Education and Health Services (14%)	5.8	3.7	2.3	2.9
	Leisure and Hospitality (8%)	(0.7)	(3.7)	(1.4)	3.3
	Government (18%)	1.5	(1.6)	(0.2)	(3.7)
Balance (28%)	Total Nonagricultural Employment	(1.8)	(2.9)	0.5	0.6
	Construction and Mining (5%)	(7.8)	(12.5)	(3.9)	1.8
	Trade, Transportation, and Utilities (19%)	(3.0)	(2.3)	1.7	(0.1)
	Financial Activities (4%)	(2.2)	(2.7)	(1.0)	1.4
	Professional and Business Services (9%)	(2.3)	(5.3)	(1.7)	0.0
	Education and Health Services (15%)	3.0	2.1	0.5	3.1
	Leisure and Hospitality (9%)	(0.4)	(0.3)	0.8	1.0
	Government (21%)	1.4	(1.0)	0.1	(1.8)

The October Pessimistic scenario from the Department of Taxation is based on Global Insight's October 2010 U.S. pessimistic alternative scenario.

* Represents the percentage share of Virginia.

** Represents the percentage share of total employment within the region.

**SECTION 3
GENERAL FUND
REVENUES**

Section 3 General Fund Revenues

Fiscal Year 2010 in Review

In fiscal year 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 fiscal year 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 \$169.4 million of the revenue surplus. Payroll withholding and sales tax collections, 87 percent of total revenues, exceeded the forecast by \$62.3 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 fiscal year 2010. The shortfall was primarily attributable to interest income, which fell short of expectations by \$21.1 million.

Table 3.1 on the next page compares actual revenues for fiscal year 2010 with the official forecast. The official revenue forecast was based on the October 2009 Global Insight pessimistic alternative scenario, the corresponding Virginia economic forecast developed by the Department of Taxation, historical revenue collections data, and actions of the 2010 General Assembly. Historical general fund revenue data are contained in Appendix B.

Total revenue collections in fiscal year 2010 had a forecast variance of 1.7 percent. The largest revenue source, net individual income tax, recorded a variance of 1.4 percent. The nonwithholding component of individual income tax had a variance of 5.2 percent. Collections in the payroll withholding component finished the year with a variance of 0.2 percent. Sales and use tax collections, the second largest source, had a forecast variance of 1.3 percent. Taken together, payroll withholding and sales tax collections, representing current economic activity in the Commonwealth, had a forecast variance of 0.5 percent. Corporate income tax collections had a forecast variance of 10.4 percent. Wills, suits, deeds and contract fees -- primarily recordation taxes -- had a forecast variance of -2.9 percent, while the insurance premiums tax was 8.0 percent above forecast. The remaining miscellaneous taxes and other revenues had a forecast variance of -3.2 percent.

GENERAL FUND REVENUES

Table 3.1
Fiscal Year 2010 General Fund Collections: Actual and Forecast
(Dollars in Millions)

	Fiscal Year 2009		Fiscal Year 2010					
	Actual	% Growth	Official Forecast	Actual	Forecast Dollars	Variance Percent	% Growth Over FY 09	
							Official	Actual
MAJOR TAX SOURCES								
Corporate Income	\$ 648.0	(19.8) %	\$ 730.7	\$ 806.5	\$ 75.8	10.4 %	12.8 %	24.4 %
Individual Income Tax:								
Gross	11,448.5	(2.9)	10,966.6	11,082.9	116.3	1.1	(4.2)	(3.2)
Withholding	9,138.1	2.3	9,153.4	9,176.2	22.8	0.2	0.2	0.4
Nonwithholding	2,310.4	(19.2)	1,813.2	1,906.8	93.6	5.2	(21.5)	(17.5)
Refunds	(1,967.4)	17.1	(2,006.5)	(1,994.7)	11.8	(0.6)	2.0	1.4
Net	9,481.1	(6.3)	8,960.1	9,088.3	128.2	1.4	(5.5)	(4.1)
Insurance Company Premiums	255.0	(35.7)	242.5	261.9	19.4	8.0	(4.9)	2.7
State Sales & Use Tax	2,903.4	(5.6)	3,043.0	3,082.5	39.5	1.3	4.8	6.2
Wills, Suits, Deeds, & Contract Fees	314.3	(31.1)	299.0	290.2	(8.8)	(2.9)	(4.9)	(7.7)
Total Major Tax Sources	\$ 13,601.9	(8.4) %	\$ 13,275.3	\$ 13,529.3	\$ 254.0	1.9 %	(2.4) %	(0.5) %
MISCELLANEOUS TAXES AND OTHER REVENUES								
Alcoholic Beverage State Tax	\$ 129.6	3.4 %	\$ 131.4	\$ 131.6	\$ 0.2	0.2 %	1.4 %	1.5 %
Bank Franchise Tax	22.5	63.1	20.0	23.1	3.1	15.7	(11.0)	3.1
Beer & Beverage Excise Tax	43.6	0.2	43.4	43.5	0.1	0.2	(0.5)	(0.2)
Corporate Franchise & Charter Fees	49.4	5.1	46.2	46.6	0.4	0.9	(6.5)	(5.7)
Excess & Other Fees from Officers	(17.1)	29.6	(6.5)	(10.5)	(4.0)	61.3	62.1	38.9
Estate & Gifts	6.0	(96.1)	3.6	5.7	2.1	57.5	(40.1)	(5.6)
Institutional Revenues	6.4	(15.7)	5.9	6.0	0.1	2.0	(7.8)	(6.0)
Interest & Rents	104.6	(44.9)	115.8	94.7	(21.1)	(18.2)	10.8	(9.5)
Licenses & Permits	4.3	(6.6)	4.2	4.3	0.1	2.0	(2.3)	(0.4)
Miscellaneous Taxes and Penalties	221.1	(0.4)	214.7	208.0	(6.7)	(3.1)	(2.9)	(5.9)
Other Miscellaneous Revenues	51.6	41.2	40.0	39.8	(0.2)	(0.4)	(22.4)	(22.7)
Public Service GR / Consumption Tax	91.3	(5.2)	94.6	97.3	2.7	2.8	3.6	6.5
Total Misc. Taxes and Other Revenues	\$ 713.2	(22.1) %	\$ 713.3	\$ 690.2	\$ (23.2)	(3.2) %	0.0 %	(3.2) %
TOTAL GF REVENUES	\$ 14,315.1	(9.2) %	\$ 13,988.6	\$ 14,219.5	\$ 230.9	1.7 %	(2.3) %	(0.7) %
TRANSFERS								
A.B.C. Profits	\$ 44.1	22.2 %	\$ 42.2	\$ 50.0	\$ 7.8	18.4 %	(4.3) %	13.3 %
Sales Tax (0.25%)	213.4	(5.8)	204.5	209.4	4.9	2.4	(4.2)	(1.9)
Transfers Per Appropriations Act	149.0	13.9	322.9	307.8	(15.1)	(4.7)	116.7	106.6
Total Transfers	\$ 406.5	(50.0) %	\$ 569.6	\$ 567.2	\$ (2.4)	(0.4) %	40.1 %	39.5 %
TOTAL GENERAL FUND	\$ 14,721.6	(11.2) %	\$ 14,558.2	\$ 14,786.7	\$ 228.5	1.6 %	(1.1) %	0.4 %

The Official forecast is based on the October 2009 Global Insight pessimistic alternative scenario and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates revenue collections data through January and actions of the 2010 General Assembly.

Table 3.2 provides an evolutionary perspective of the fiscal year 2010 forecasts, used by the Governor and General Assembly, in terms of their variance from actual collections. The variances for total revenues ranged from 19.8 percent in the December 2007 introduced forecast to 1.7 percent in the May 2010 official forecast.

GENERAL FUND REVENUES

Table 3.2
Actual Collections Over (Under) the Forecast
Percent Variance

	May 7 2010 <u>Official</u>	December 18 2009 <u>Introduced</u>	April 8 2009 <u>Official</u>	December 17 2008 <u>Introduced</u>	April 23 2008 <u>Official</u>	December 17 2007 <u>Introduced</u>
Major Tax Sources (95%)						
Corporate Income (6%)	10.4 %	14.4 %	11.4 %	10.6 %	10.7 %	2.9 %
Individual Income (64%)	1.4	1.6	(9.4)	(12.5)	(21.6)	(23.6)
Insurance Company Premiums (2%)	8.0	2.5	(7.5)	(7.5)	(17.5)	(14.4)
State Sales & Use Tax (22%)	1.3	2.0	(2.4)	(2.7)	(9.1)	(11.6)
Wills, Suits, Deeds & Contracts (2%)	<u>(2.9)</u>	<u>2.2</u>	<u>(2.7)</u>	<u>(2.7)</u>	<u>(30.1)</u>	<u>(40.8)</u>
Total Major Tax Sources	1.9 %	2.4 %	(6.7) %	(9.0) %	(17.7) %	(20.2) %
Miscellaneous Taxes & Other Revenues (5%)	(3.2) %	(2.5) %	(9.8) %	(8.9) %	(7.3) %	(9.9) %
Total Revenues	1.7 %	2.1 %	(6.8) %	(9.0) %	(17.3) %	(19.8) %

Numbers in parentheses immediately following each source indicate collections as a percentage of total general fund revenues. These may not add to 100% due to rounding.

The May 7, 2010 Official forecast is based on the October 2009 Global Insight pessimistic alternative scenario and the corresponding Virginia state forecast developed by the Department of Taxation and reflects actions of the 2010 General Assembly, Chapter 872.

The December 18, 2009 Introduced forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and accompanied the Governor's Budget Bill.

The April 8, 2009 Official forecast is based on the November 2008 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and reflects actions of the 2009 General Assembly, Chapter 781.

The December 17, 2008 Introduced forecast is based on the November 2008 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and accompanied the Governor's Budget Bill.

The April 23, 2008 Official forecast is based on the January 2008 Global Insight Standard outlook and the corresponding Virginia forecast developed by the Department of Taxation and reflects actions of the 2008 General Assembly, Chapter 879.

The December 17, 2007 Introduced forecast is based on the October 2007 Global Insight Standard outlook and the corresponding Virginia forecast developed by the Department of Taxation and accompanied the Governor's Budget Bill.

Individual Income Taxes

Collections of net individual income taxes (64 percent of total revenues) declined 4.1 percent in fiscal year 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 fiscal year 2005.

Withholding: In fiscal year 2010, withholding receipts (65 percent of total revenues) increased 0.4 percent, slightly ahead of the forecasted growth rate of 0.2 percent. Collections of \$9,176.2 million were \$22.8 million above the forecast. After declining 2.3 percent through February, withholding collections posted solid increases in three of the last four months of the year to slightly exceed the annual estimate. The accuracy of the withholding forecast was directly attributable to the insights of economists, business leaders, and General Assembly members during the fall 2009 forecasting process.

GENERAL FUND REVENUES

Nonwithholding: Collections of individual nonwithholding (13 percent of total revenues) declined 17.5 percent in fiscal year 2010, ahead of the annual forecast of a 21.5 percent decline. The double-digit drop in fiscal year 2010 followed a 19.2 percent contraction in fiscal year 2009. While receipts of \$1,906.8 million were \$93.6 million ahead of the annual estimate, this was the lowest level of collections since fiscal year 2004.

The annual surplus in nonwithholding was attributable to a better-than-expected performance in individual final payments, which only declined 25 percent compared with expectations of a 39 percent decline. These payments are historically tied to non-wage income sources – mainly the financial markets. While the stock market performed near expectations in calendar year 2009 (a decline of 23%), individuals appear to have accurately estimated tax year liability throughout the year, avoiding a sharper decline in final payments. Collections of quarterly estimated payments, reflecting second half payments for tax year 2009 and first half payments for tax year 2010, were slightly weaker than expected, declining by 13 percent as compared to the forecast of an 11 percent decline.

Refunds: Individual income tax refunds totaled \$1,994.7 million in fiscal year 2010, \$11.8 million less than expected, growing by 1.4 percent compared with the forecast of 2.0 percent. The annual percentage increase represented a significant slowdown from the 24.1 percent increase through December and 12.1 percent increase through March. Fiscal year 2010 marked the first year since the early 1980s that individual refunds exceeded nonwithholding payments.

Sales Taxes

Collections of sales and use taxes (22 percent of total revenues) were \$3,082.5 million in fiscal year 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 fiscal year 2010 compared with the policy-adjusted forecast of a 3.0 percent decline. After declining 3.8 percent on a year-to-date basis through March, economic-base sales tax collections for April through June increased 5.6 percent, generating the annual surplus. The April to June rebound was driven by consumer discretionary spending at department stores, housing-related retailers, and restaurants, which collectively increased 10 percent over the same period last year.

Corporate Income Taxes

Corporate income tax collections (6 percent of total revenues), historically the most volatile revenue source, rebounded strongly in fiscal year 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.

Wills, Suits, Deeds, and 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 fiscal year 2010. Collections finished the year at \$290.2 million, a 7.7 percent decline from fiscal year 2009 and below the official forecast of a 4.9 percent decline.

Collections in this source peaked at \$695 million in fiscal year 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 fiscal year 2010 pointed to stability in housing as the homebuyer tax credit generated sales activity. However, absent federal stimulus, the housing market continues to decline.

Insurance Premiums Taxes

Collections of taxes on the premiums of insurance companies (2 percent of total revenues) were \$261.9 million in fiscal year 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.

Miscellaneous Taxes and Other Revenues

Collectively, minor revenue sources finished \$23.2 million below the annual forecast. The shortfall was primarily attributable to interest income, which fell short of expectations by \$21 million in fiscal year 2010. Most of the underperformance in interest was attributable to a shortfall in non-general fund interest captures and unexpected losses on the sales of investments.

The Revised General Fund Forecasts

The revised outlook for general fund revenues is summarized in the following discussion. The two revenue forecasts presented for consideration are based on the economic scenarios detailed in Section 2. The first is the November standard forecast, which is based on the Global Insight October 2010 standard U.S. economic forecast and the corresponding Virginia forecast developed by the Department of Taxation, which incorporates input from the JABE. The alternative forecast is based on the Global Insight October 2010 pessimistic alternative U.S. and Virginia economic forecasts. In addition to the latest economic data, the revenue forecasts incorporate tax collections data through the first quarter of fiscal year 2011.

Appendix C-1 summarizes the econometric models which serve as inputs to the forecast of the major revenue sources. These models translate economic scenarios into revenue projections. In developing the revenue forecast, the output from these equations is supplemented by an analysis of current and historical collections patterns and recent legislation affecting each source.

GENERAL FUND REVENUES

The Standard Forecast for Fiscal Years 2011 and 2012

Table 3.3 on the following pages provides a comparison of the November standard revenue forecast with the official forecast, upon which the current Appropriations Act is based. The official forecast is based on the October 2009 Global Insight U.S. standard outlook and the corresponding Virginia forecast developed by the Department of Taxation, and reflects adjustments by the 2010 General Assembly, Chapter 874.

In the November standard forecast, total general fund revenues have been increased by \$127.1 million in fiscal year 2011 and \$123.3 million in fiscal year 2012 for a total biennium increase of \$250.4 million. Revenues are expected to increase 3.5 percent in fiscal year 2011 compared with the official forecast of 2.6 percent growth. However, this is understated due to the accelerated sales tax program in fiscal year 2010. Adjusted for the accelerated sales tax program, total revenue growth for fiscal year 2011 is 5.1 percent, a healthy rebound from the economic-base decline of 2.2 percent in fiscal year 2010. Total revenues are expected to increase 4.9 percent in fiscal year 2012, matching the growth rate contained in the official forecast. Despite the upward revisions to the revenue forecast, collections remain over \$300 million below the fiscal year 2008 peak.

Withholding and sales tax collections, the two revenue sources most closely linked to current economic conditions in the Commonwealth, drive the upward revision to total revenues for fiscal years 2011 and 2012. While this may seem at odds with the October standard economic forecast of slightly weaker growth than the official economic outlook, there are other factors at work. For one, both withholding and sales tax collections exceeded their respective forecasts in fiscal year 2010, raising the revenue base. In addition, first quarter collections for fiscal year 2011 maintained a positive trend in both sources dating back to March 2010. These factors more than offset the slightly weaker economic outlook. In fact, for both withholding and sales tax, revised annual growth for fiscal year 2011 is below year-to-date growth through October, meaning that trends can deteriorate for the remainder of the fiscal year and the November standard forecast can still be achieved.

For most other sources, revisions contained in the November standard forecast are minor, with reductions attributable to the continued weakness in housing and longer term concerns regarding financial markets and non-wage income. Model results and recent trends suggest that the official forecast for individual nonwithholding, net corporate income tax, and recordation tax – the three most volatile revenue sources – remains reasonable. Following is an analysis of the November standard general fund revenue forecast.

Net Individual Income Taxes

The outlook for net individual income taxes has been revised upward from the official forecast over the forecast horizon. For the biennium, upward revisions to withholding are somewhat offset by reductions to nonwithholding and an increased projection for individual refunds.

GENERAL FUND REVENUES

Table 3.3
The Official and November Standard General Fund Forecast for Fiscal Year 2011
(Dollars in Millions)

November 2, 2010

	Fiscal Year 2010		Fiscal Year 2011				% Growth Over FY 10	
	Actual	% Growth	Official Forecast	November Forecast	Change	Official	November	
MAJOR TAX SOURCES								
Corporate Income	\$ 806.5	24.4 %	\$ 792.8	\$ 800.7	\$ 7.9	(1.7) %	(0.7) %	
Individual Income Tax:								
Gross	11,082.9	(3.2)	11,511.8	11,562.8	51.0	3.9	4.3	
Withholding	9,176.2	0.4	9,394.5	9,448.8	54.3	2.4	3.0	
Nonwithholding	1,906.8	(17.5)	2,117.3	2,114.0	(3.3)	11.0	10.9	
Refunds	(1,994.7)	1.4	(1,924.1)	(1,915.8)	8.3	(3.5)	(4.0)	
Net	9,088.3	(4.1)	9,587.7	9,647.0	59.3	5.5	6.1	
Insurance Company Premiums	261.9	2.7	274.4	277.7	3.3	4.8	6.0	
State Sales & Use Tax	3,082.5	6.2	2,880.8	2,996.9	116.1	(6.5)	(2.8)	
Wills, Suits, Deeds, & Contract Fees	290.2	(7.7)	314.0	274.0	(40.0)	8.2	(5.6)	
Total Major Tax Sources	\$ 13,529.3	(0.5) %	\$ 13,849.7	\$ 13,996.3	\$ 146.6	2.4 %	3.5 %	
MISCELLANEOUS TAXES AND OTHER REVENUES								
Alcoholic Beverage State Tax	\$ 131.6	1.5 %	\$ 134.6	\$ 133.7	\$ (0.9)	2.3 %	1.6 %	
Bank Franchise Tax	23.1	3.1	15.0	22.8	7.8	(35.2)	(1.5)	
Beer & Beverage Excise Tax	43.5	(0.2)	43.4	43.5	0.1	(0.2)	0.0	
Corporate Franchise & Charter Fees	46.6	(5.7)	46.2	46.7	0.5	(0.9)	0.2	
Excess & Other Fees from Officers	(10.5)	38.9	(6.5)	(7.5)	(1.0)	38.0	28.5	
Estate & Gifts	5.7	(5.6)	0.0	4.0	4.0	(100.0)	(29.5)	
Institutional Revenues	6.0	(6.0)	5.9	5.8	(0.1)	(2.0)	(3.6)	
Interest & Rents	94.7	(9.5)	108.4	100.1	(8.3)	14.5	5.7	
Licenses & Permits	4.3	(0.4)	4.2	4.2	0.0	(1.9)	(1.9)	
Miscellaneous Taxes and Penalties	208.0	(5.9)	233.6	231.3	(2.3)	12.3	11.2	
Other Miscellaneous Revenues	39.8	(22.7)	54.8	33.3	(21.5)	37.6	(16.4)	
Public Service GR / Consumption Tax	97.3	6.5	94.2	96.4	2.2	(3.1)	(0.9)	
Total Misc. Taxes and Other Revenues	\$ 690.2	(3.2) %	\$ 733.8	\$ 714.3	\$ (19.5)	6.3 %	3.5 %	
TOTAL GF REVENUES	\$ 14,219.5	(0.7) %	\$ 14,583.5	\$ 14,710.6	\$ 127.1	2.6 %	3.5 %	
TRANSFERS								
A.B.C. Profits	\$ 50.0	13.3 %	\$ 46.2	\$ 46.2	\$ 0.0	(7.5) %	(7.5) %	
Sales Tax (0.25%)	209.4	(1.9)	208.9	215.7	6.8	(0.3)	3.0	
Transfers Per Appropriations Act	307.8	106.6	159.3	159.3	0.0	(48.2)	(48.2)	
Total Transfers	\$ 567.2	39.5 %	\$ 414.4	\$ 421.2	\$ 6.8	(26.9) %	(25.7) %	
TOTAL GENERAL FUND	\$ 14,786.7	0.4 %	\$ 14,997.9	\$ 15,131.8	\$ 133.9	1.4 %	2.3 %	

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates revenue collection trends through January and actions of the 2010 General Assembly, Chapter 874.

The November Standard forecast is based on the October 2010 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, which incorporates recommendations of the JABE.

GENERAL FUND REVENUES

Table 3.3
The Official and November Standard General Fund Forecast for Fiscal Year 2012
(Dollars in Millions)

November 2, 2010

	Fiscal Year 2012					2010-2012 Biennium		
	Official Forecast	November Forecast	Change	% Growth Over FY 11 Official	% Growth Over FY 11 November	Official Forecast	November Forecast	Change
MAJOR TAX SOURCES								
Corporate Income	\$ 838.4	\$ 841.1	\$ 2.7	5.8 %	5.0 %	\$ 1,631.2	\$ 1,641.8	\$ 10.6
Individual Income Tax:								
Gross	11,983.6	12,054.5	70.9	4.1	4.3	23,495.4	23,617.3	121.9
Withholding	9,700.7	9,829.0	128.3	3.3	4.0	19,095.2	19,277.8	182.6
Nonwithholding	2,282.9	2,225.5	(57.4)	7.8	5.3	4,400.2	4,339.5	(60.7)
Refunds	(1,847.1)	(1,877.0)	(29.9)	(4.0)	(2.0)	(3,771.2)	(3,792.8)	(21.6)
Net	10,136.5	10,177.5	41.0	5.7	5.5	19,724.2	19,824.5	100.3
Insurance Company Premiums	291.4	289.6	(1.8)	6.2	4.3	565.8	567.3	1.5
State Sales & Use Tax	2,974.2	3,086.5	112.3	3.2	3.0	5,855.0	6,083.4	228.4
Wills, Suits, Deeds, & Contract Fees	314.0	294.1	(19.9)	0.0	7.3	628.0	568.1	(59.9)
Total Major Tax Sources	\$ 14,554.5	\$ 14,688.8	\$ 134.3	5.1 %	4.9 %	\$ 28,404.2	\$ 28,685.1	\$ 280.9
MISCELLANEOUS TAXES AND OTHER REVENUES								
Alcoholic Beverage State Tax	\$ 137.9	\$ 137.1	\$ (0.8)	2.5 %	2.5 %	\$ 272.5	\$ 270.8	\$ (1.7)
Bank Franchise Tax	10.0	18.0	8.0	(33.3)	(21.1)	25.0	40.8	15.8
Beer & Beverage Excise Tax	43.4	43.5	0.1	0.0	0.0	86.8	87.0	0.2
Corporate Franchise & Charter Fees	46.2	46.7	0.5	0.0	0.0	92.4	93.4	1.0
Excess & Other Fees from Officers	(6.5)	(7.5)	(1.0)	0.0	0.0	(13.0)	(15.0)	(2.0)
Estate & Gifts	0.0	2.0	2.0	n/a	n/a	0.0	6.0	6.0
Institutional Revenues	5.9	5.8	(0.1)	0.0	0.0	11.8	11.6	(0.2)
Interest & Rents	142.8	129.3	(13.5)	31.7	29.2	251.2	229.4	(21.8)
Licenses & Permits	4.2	4.2	0.0	0.0	0.0	8.4	8.4	0.0
Miscellaneous Taxes and Penalties	238.7	231.6	(7.1)	2.2	0.1	472.3	462.9	(9.4)
Other Miscellaneous Revenues	31.8	30.5	(1.3)	(42.0)	(8.4)	86.6	63.8	(22.8)
Public Service GR / Consumption Tax	94.2	96.4	2.2	0.0	0.0	188.4	192.8	4.4
Total Misc. Taxes and Other Revenues	\$ 748.6	\$ 737.6	\$ (11.0)	2.0 %	3.3 %	\$ 1,482.4	\$ 1,451.9	\$ (30.5)
TOTAL GF REVENUES	\$ 15,303.1	\$ 15,426.4	\$ 123.3	4.9 %	4.9 %	\$ 29,886.6	\$ 30,137.0	\$ 250.4
TRANSFERS								
A.B.C. Profits	\$ 49.3	\$ 47.8	\$ (1.5)	6.7 %	3.5 %	\$ 95.5	\$ 94.0	\$ (1.5)
Sales Tax (0.25%)	215.8	222.3	6.5	3.3	3.1	424.7	438.0	13.3
Transfers Per Appropriations Act	179.8	179.8	0.0	12.9	12.9	339.1	339.1	0.0
Total Transfers	\$ 444.9	\$ 449.9	\$ 5.0	7.4 %	6.8 %	\$ 859.3	\$ 871.1	\$ 11.8
TOTAL GENERAL FUND	\$ 15,748.0	\$ 15,876.3	\$ 128.3	5.0 %	4.9 %	\$ 30,745.9	\$ 31,008.1	\$ 262.2

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates revenue collection trends through January and actions of the 2010 General Assembly, Chapter 874.

The November Standard forecast is based on the October 2010 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, which incorporates recommendations of the JABE.

GENERAL FUND REVENUES

Table 3.3
The November Standard General Fund Forecast for Fiscal Years 2013-2014
(Dollars in Millions)

November 2, 2010

	Fiscal Year 2013		Fiscal Year 2014		2012-2014 Biennium	
	November Forecast	% Growth Over FY 12	November Forecast	% Growth Over FY 13	November Forecast	% Growth Over 10-12
MAJOR TAX SOURCES						
Corporate Income	\$ 831.5	(1.1) %	\$ 847.4	1.9 %	\$ 1,678.9	2.3 %
Individual Income Tax:						
Gross	12,648.6	4.9	13,229.1	4.6	25,877.7	9.6
Withholding	10,278.5	4.6	10,739.2	4.5	21,017.7	9.0
Nonwithholding	2,370.1	6.5	2,489.9	5.1	4,860.0	12.0
Refunds	(1,904.2)	1.4	(1,921.8)	0.9	(3,826.0)	0.9
Net	10,744.4	5.6	11,307.3	5.2	22,051.7	11.2
Insurance Company Premiums	304.2	5.0	313.6	3.1	617.8	8.9
State Sales & Use Tax	3,212.7	4.1	3,342.4	4.0	6,555.1	7.8
Wills, Suits, Deeds, & Contract Fees	294.1	0.0	294.1	0.0	588.2	3.5
Total Major Tax Sources	\$ 15,386.9	4.8 %	\$ 16,104.8	4.7 %	\$ 31,491.7	9.8 %
MISCELLANEOUS TAXES AND OTHER REVENUES						
Alcoholic Beverage State Tax	\$ 140.3	2.3 %	\$ 143.2	2.1 %	\$ 283.5	4.7 %
Bank Franchise Tax	12.4	(31.1)	12.4	0.0	24.8	(39.2)
Beer & Beverage Excise Tax	43.5	0.0	43.5	0.0	87.0	0.0
Corporate Franchise & Charter Fees	46.7	0.0	46.7	0.0	93.4	0.0
Excess & Other Fees from Officers	(7.5)	0.0	(7.5)	0.0	(15.0)	0.0
Estate & Gifts	0.0	n/a	0.0	n/a	0.0	n/a
Institutional Revenues	5.8	0.0	5.8	0.0	11.6	0.0
Interest & Rents	83.4	(35.5)	106.4	27.6	189.8	(17.3)
Licenses & Permits	4.2	0.0	4.2	0.0	8.4	0.0
Miscellaneous Taxes and Penalties	232.2	0.3	232.7	0.2	464.9	0.4
Other Miscellaneous Revenues	30.5	0.0	30.5	0.0	61.0	(4.4)
Public Service GR / Consumption Tax	96.4	0.0	96.4	0.0	192.8	0.0
Total Misc. Taxes and Other Revenues	\$ 687.9	(6.7) %	\$ 714.3	3.8 %	\$ 1,402.2	(3.4) %
TOTAL GF REVENUES	\$ 16,074.8	4.2 %	\$ 16,819.1	4.6 %	\$ 32,893.9	9.1 %
TRANSFERS						
A.B.C. Profits	\$ 48.3	1.0 %	\$ 49.3	2.1 %	\$ 97.6	3.8 %
Sales Tax (0.25%)	231.5	4.1	241.0	4.1	472.5	7.9
Transfers Per Appropriations Act	80.4	(55.3)	80.4	0.0	160.8	(52.6)
Total Transfers	\$ 360.2	(19.9) %	\$ 370.7	2.9 %	\$ 730.9	(16.1) %
TOTAL GENERAL FUND	\$ 16,435.0	3.5 %	\$ 17,189.8	4.6 %	\$ 33,624.8	8.4 %

The November Standard forecast is based on the October 2010 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, which incorporates recommendations of the JABE.

GENERAL FUND REVENUES

Withholding

The withholding revenue model is based on a direct relationship with wages and salaries (55 percent of total personal income) and net transfer payments (5 percent of total personal income) in Virginia. Growth in wages and salaries is projected to be slightly weaker than the official forecast in fiscal year 2011, in part due to the reduced outlook for growth in the professional and business services subsector in Northern Virginia. Taken together with the small surplus in fiscal year 2010 and solid growth in first quarter collections (4.4 percent), the withholding forecast has been revised upward.

In the November standard revenue forecast, withholding has been increased by \$54.3 million in fiscal year 2011, growth of 3.0 percent over fiscal year 2010 compared with the official forecast of 2.4 percent growth. Withholding has been revised upward by \$128.3 million in fiscal year 2012, growth of 4.0 percent compared with the official forecast of 3.3 percent.

Nonwithholding

The revenue model for nonwithholding considers estimated and final payments independently. Estimated payments are modeled as a function of total proprietor's income, dividends, interest, and rental income, and the S&P 500 index, while final payments are driven solely by growth in the S&P 500 index.

The forecast for nonwithholding is essentially unchanged in fiscal year 2011 (-\$3.3 million), as disappointing growth in first quarter collections and a reduced outlook for non-wage income are offset by slightly stronger growth in financial markets and the significant surplus in fiscal year 2010. In the November standard revenue forecast, nonwithholding is projected to increase 10.9 percent in fiscal year 2011 compared with the official forecast of 11.0 percent. For fiscal year 2012, the outlook for nonwithholding has been reduced by \$57.4 million, yielding annual growth of 5.3 percent compared with the official forecast of 7.8 percent. The downward revision reflects slightly weaker prospects for financial markets and non-wage income.

Refunds

The forecast methodology for individual refunds relies on the revised outlook for withholding and nonwithholding, comparing taxable year individual income tax with taxable year refunds for the first and second half of a taxable year. The methodology also explicitly considers the land preservation tax credit and low-income credit. Actual historic data are adjusted for these credits. Future values for these credits are estimated and these amounts are added to the base refund forecast.

In the November standard revenue forecast, individual refunds are projected to decline 4.0 percent in fiscal year 2011 compared with the official forecast of a 3.5 percent decline. The forecast for the year has been reduced by \$8.3 million compared with the official forecast. In fiscal year 2012, individual refunds have been increased \$29.9 million for an annual decline of only 2.0 percent compared to the official forecast of a 4.0 percent decline. The increase in fiscal year 2012 reflects the upward revision to gross individual income taxes. Similar to the last two years, land preservation credits are projected to total \$125.0 million in fiscal year 2011 and increase to \$150.0 million in fiscal year 2012. The outlook for low income credits has been increased to reflect the performance in fiscal year 2010.

Sales

The sales tax revenue model is based on a direct relationship with total personal income in Virginia. Growth in personal income is slightly weaker than the official forecast. Taken together with the surplus in fiscal year 2010 and solid economic-base growth in first quarter collections (4.8 percent), the outlook for sales tax has been revised upward.

In the November standard revenue forecast, sales tax has been increased by \$116.1 million in fiscal year 2011, an annual decline of 2.8 percent compared with the official forecast of a 6.5 percent decline. Adjusted for the accelerated sales tax program in fiscal year 2010 and policy adjustments affecting the current biennium, economic-base growth is 3.0 percent in fiscal year 2011. Sales tax has been revised upward by \$112.3 million in fiscal year 2012, growth of 3.0 percent compared with the official forecast of 3.2 percent.

Corporate

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 historical ratio of gross payments to refund activity. The November standard revenue forecast confirms the official forecast for net corporate income tax receipts. The outlook has been increased by \$7.9 million in fiscal year 2011, a decline of 0.7 percent from fiscal year 2010 compared with the official forecast of a 1.7 percent decline. Collections have been revised up by \$2.7 million in fiscal year 2012, 5.0 percent growth compared with the official forecast of 5.8 percent growth.

Wills, Suits, Deeds, and Contracts (Recordation Tax)

The revenue model for recordation tax is based on refinancing activity and median home prices in Virginia, along with the yield on 30-year treasury bonds. The outlook for recordation drives other components of the source. In the official forecast, housing activity was expected to stabilize in fiscal year 2011. However, based on updated economic data and input from the JABE, the outlook has been reduced to reflect a further decline in the housing market.

GENERAL FUND REVENUES

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

Insurance Premiums Tax

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

Miscellaneous Taxes and Other Revenues

Taken together, all other revenue sources have been revised down by \$19.5 million in fiscal year 2011 and \$11.0 million in fiscal year 2012. The reduction to fiscal year 2011 is attributable to revisions to the outlook for the sales of surplus property. For both fiscal years 2011 and 2012, the outlook for interest income has been reduced to reflect lower yields on investable balances.

The Standard Forecast for Fiscal Years 2013 and 2014

The November standard revenue forecast for the 2012-2014 biennium reflects a modest economic expansion. Total revenues are projected to increase 4.2 percent in fiscal year 2013 and 4.6 percent in fiscal year 2014. While this is below historical trends, it is consistent with the revised economic outlook of protracted structural imbalances, specifically in the labor market and housing sector.

Alternative General Fund Revenue Forecast

Table 3.4 on the following pages compares the official and November pessimistic alternative general fund forecasts. The “double-dip” or “back-to-back” recession scenario reduces the forecast only slightly from the official forecast in fiscal year 2011. However, in fiscal year 2012, revenue growth weakens considerably. For the 2010-2012 biennium, the pessimistic alternative revenue forecast is \$637.7 million below the official revenue forecast. As compared to the November standard revenue forecast, the pessimistic alternative scenario is about \$900 million lower for the current biennium. For the 2012-2014 biennium, the November pessimistic alternative forecast is \$1.6 billion below the November standard forecast.

GENERAL FUND REVENUES

Table 3.4
The Official and November Pessimistic Alternative General Fund Forecast for Fiscal Year 2011
(Dollars in Millions)

November 2, 2010

	Fiscal Year 2010		Fiscal Year 2011				
	Actual	% Growth	Official Forecast	Nov Alt Forecast	Change	% Growth Over FY 10	
						Official	Nov Alt
MAJOR TAX SOURCES							
Corporate Income	\$ 806.5	24.4 %	\$ 792.8	\$ 773.2	\$ (19.6)	(1.7) %	(4.1) %
Individual Income Tax:							
Gross	11,082.9	(3.2)	11,511.8	11,469.8	(42.0)	3.9	3.5
Withholding	9,176.2	0.4	9,394.5	9,413.6	19.1	2.4	2.6
Nonwithholding	1,906.8	(17.5)	2,117.3	2,056.2	(61.1)	11.0	7.8
Refunds	(1,994.7)	1.4	(1,924.1)	(1,942.5)	(18.4)	(3.5)	(2.6)
Net	9,088.3	(4.1)	9,587.7	9,527.3	(60.4)	5.5	4.8
Insurance Company Premiums	261.9	2.7	274.4	275.8	1.4	4.8	5.3
State Sales & Use Tax	3,082.5	6.2	2,880.8	2,982.0	101.2	(6.5)	(3.3)
Wills, Suits, Deeds, & Contract Fees	290.2	(7.7)	314.0	265.2	(48.8)	8.2	(8.6)
Total Major Tax Sources	\$ 13,529.3	(0.5) %	\$ 13,849.7	\$ 13,823.5	\$ (26.2)	2.4 %	2.2 %
MISCELLANEOUS TAXES AND OTHER REVENUES							
Alcoholic Beverage State Tax	\$ 131.6	1.5 %	\$ 134.6	\$ 133.7	\$ (0.9)	2.3 %	1.6 %
Bank Franchise Tax	23.1	3.1	15.0	22.8	7.8	(35.2)	(1.5)
Beer & Beverage Excise Tax	43.5	(0.2)	43.4	43.5	0.1	(0.2)	0.0
Corporate Franchise & Charter Fees	46.6	(5.7)	46.2	46.7	0.5	(0.9)	0.2
Excess & Other Fees from Officers	(10.5)	38.9	(6.5)	(7.5)	(1.0)	38.0	28.5
Estate & Gifts	5.7	(5.6)	0.0	4.0	4.0	(100.0)	(29.5)
Institutional Revenues	6.0	(6.0)	5.9	5.8	(0.1)	(2.0)	(3.6)
Interest & Rents	94.7	(9.5)	108.4	100.1	(8.3)	14.5	5.7
Licenses & Permits	4.3	(0.4)	4.2	4.2	0.0	(1.9)	(1.9)
Miscellaneous Taxes and Penalties	208.0	(5.9)	233.6	231.3	(2.3)	12.3	11.2
Other Miscellaneous Revenues	39.8	(22.7)	54.8	33.3	(21.5)	37.6	(16.4)
Public Service GR / Consumption Tax	97.3	6.5	94.2	96.4	2.2	(3.1)	(0.9)
Total Misc. Taxes and Other Revenues	\$ 690.2	(3.2) %	\$ 733.8	\$ 714.3	\$ (19.5)	6.3 %	3.5 %
TOTAL GF REVENUES	\$ 14,219.5	(0.7) %	\$ 14,583.5	\$ 14,537.8	\$ (45.7)	2.6 %	2.2 %
TRANSFERS							
A.B.C. Profits	\$ 50.0	13.3 %	\$ 46.2	\$ 46.2	\$ 0.0	(7.5) %	(7.5) %
Sales Tax (0.25%)	209.4	(1.9)	208.9	214.6	5.7	(0.3)	2.5
Transfers Per Appropriations Act	307.8	106.6	159.3	159.3	0.0	(48.2)	(48.2)
Total Transfers	\$ 567.2	39.5 %	\$ 414.4	\$ 420.1	\$ 5.7	(26.9) %	(25.9) %
TOTAL GENERAL FUND	\$ 14,786.7	0.4 %	\$ 14,997.9	\$ 14,957.9	\$ (40.0)	1.4 %	1.2 %

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates revenue collection trends through January and actions of the 2010 General Assembly, Chapter 874.

The November Pessimistic Alternative forecast is based on the October 2010 Global Insight Pessimistic Alternative outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

GENERAL FUND REVENUES

Table 3.4
The Official and November Pessimistic Alternative General Fund Forecast for Fiscal Year 2012
(Dollars in Millions)

November 2, 2010

	Fiscal Year 2012					2010-2012 Biennium		
	Official Forecast	Nov Alt Forecast	Change	% Growth Over FY 11 Official	% Growth Over FY 11 Nov Alt	Official Forecast	Nov Alt Forecast	Change
MAJOR TAX SOURCES								
Corporate Income	\$ 838.4	\$ 795.5	\$ (42.9)	5.8 %	2.9 %	\$ 1,631.2	\$ 1,568.7	\$ (62.5)
Individual Income Tax:								
Gross	11,983.6	11,595.2	(388.4)	4.1	1.1	23,495.4	23,065.0	(430.4)
Withholding	9,700.7	9,694.6	(6.1)	3.3	3.0	19,095.2	19,108.2	13.0
Nonwithholding	2,282.9	1,900.6	(382.3)	7.8	(7.6)	4,400.2	3,956.8	(443.4)
Refunds	(1,847.1)	(1,921.1)	(74.0)	(4.0)	(1.1)	(3,771.2)	(3,863.6)	(92.4)
Net	10,136.5	9,674.1	(462.4)	5.7	1.5	19,724.2	19,201.4	(522.8)
Insurance Company Premiums	291.4	283.6	(7.8)	6.2	2.8	565.8	559.4	(6.4)
State Sales & Use Tax	2,974.2	3,015.1	40.9	3.2	1.1	5,855.0	5,997.1	142.1
Wills, Suits, Deeds, & Contract Fees	314.0	205.2	(108.8)	0.0	(22.6)	628.0	470.4	(157.6)
Total Major Tax Sources	\$ 14,554.5	\$ 13,973.5	\$ (581.0)	5.1 %	1.1 %	\$ 28,404.2	\$ 27,797.0	\$ (607.2)
MISCELLANEOUS TAXES AND OTHER REVENUES								
Alcoholic Beverage State Tax	\$ 137.9	\$ 137.1	\$ (0.8)	2.5 %	2.5 %	\$ 272.5	\$ 270.8	\$ (1.7)
Bank Franchise Tax	10.0	18.0	8.0	(33.3)	(21.1)	25.0	40.8	15.8
Beer & Beverage Excise Tax	43.4	43.5	0.1	0.0	0.0	86.8	87.0	0.2
Corporate Franchise & Charter Fees	46.2	46.7	0.5	0.0	0.0	92.4	93.4	1.0
Excess & Other Fees from Officers	(6.5)	(7.5)	(1.0)	0.0	0.0	(13.0)	(15.0)	(2.0)
Estate & Gifts	0.0	2.0	2.0	n/a	n/a	0.0	6.0	6.0
Institutional Revenues	5.9	5.8	(0.1)	0.0	0.0	11.8	11.6	(0.2)
Interest & Rents	142.8	129.3	(13.5)	31.7	29.2	251.2	229.4	(21.8)
Licenses & Permits	4.2	4.2	0.0	0.0	0.0	8.4	8.4	0.0
Miscellaneous Taxes and Penalties	238.7	231.6	(7.1)	2.2	0.1	472.3	462.9	(9.4)
Other Miscellaneous Revenues	31.8	30.5	(1.3)	(42.0)	(8.4)	86.6	63.8	(22.8)
Public Service GR / Consumption Tax	94.2	96.4	2.2	0.0	0.0	188.4	192.8	4.4
Total Misc. Taxes and Other Revenues	\$ 748.6	\$ 737.6	\$ (11.0)	2.0 %	3.3 %	\$ 1,482.4	\$ 1,451.9	\$ (30.5)
TOTAL GF REVENUES	\$ 15,303.1	\$ 14,711.1	\$ (592.0)	4.9 %	1.2 %	\$ 29,886.6	\$ 29,248.9	\$ (637.7)
TRANSFERS								
A.B.C. Profits	\$ 49.3	\$ 47.8	\$ (1.5)	6.7 %	3.5 %	\$ 95.5	\$ 94.0	\$ (1.5)
Sales Tax (0.25%)	215.8	217.0	1.2	3.3	1.1	424.7	431.6	6.9
Transfers Per Appropriations Act	179.8	179.8	0.0	12.9	12.9	339.1	339.1	0.0
Total Transfers	\$ 444.9	\$ 444.6	\$ (0.3)	7.4 %	5.8 %	\$ 859.3	\$ 864.7	\$ 5.4
TOTAL GENERAL FUND	\$ 15,748.0	\$ 15,155.7	\$ (592.3)	5.0 %	1.3 %	\$ 30,745.9	\$ 30,113.6	\$ (632.3)

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates revenue collection trends through January and actions of the 2010 General Assembly, Chapter 874.

The November Pessimistic Alternative forecast is based on the October 2010 Global Insight Pessimistic Alternative outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

GENERAL FUND REVENUES

Table 3.4
The November Pessimistic Alternative General Fund Forecast for Fiscal Years 2013-2014
(Dollars in Millions)

November 2, 2010

	Fiscal Year 2013		Fiscal Year 2014		2012-2014 Biennium	
	Nov Alt	% Growth	Nov Alt	% Growth	Nov Alt	% Growth
	Forecast	Over FY 12	Forecast	Over FY 13	Forecast	Over 10-12
MAJOR TAX SOURCES						
Corporate Income	\$ 790.9	(0.6) %	\$ 804.6	1.7 %	\$ 1,595.5	1.7 %
Individual Income Tax:						
Gross	12,096.8	4.3	12,684.7	4.9	24,781.5	7.4
Withholding	10,060.5	3.8	10,498.7	4.4	20,559.2	7.6
Nonwithholding	2,036.3	7.1	2,186.0	7.4	4,222.3	6.7
Refunds	(1,897.5)	(1.2)	(1,884.6)	(0.7)	(3,782.1)	(2.1)
Net	10,199.3	5.4	10,800.1	5.9	20,999.4	9.4
Insurance Company Premiums	293.8	3.6	305.6	4.0	599.4	7.2
State Sales & Use Tax	3,095.2	2.7	3,226.6	4.2	6,321.8	5.4
Wills, Suits, Deeds, & Contract Fees	205.2	0.0	205.2	0.0	410.4	(12.8)
Total Major Tax Sources	\$ 14,584.4	4.4 %	\$ 15,342.1	5.2 %	\$ 29,926.5	7.7 %
MISCELLANEOUS TAXES AND OTHER REVENUES						
Alcoholic Beverage State Tax	\$ 140.3	2.3 %	\$ 143.2	2.1 %	\$ 283.5	4.7 %
Bank Franchise Tax	12.4	(31.1)	12.4	0.0	24.8	(39.2)
Beer & Beverage Excise Tax	43.5	0.0	43.5	0.0	87.0	0.0
Corporate Franchise & Charter Fees	46.7	0.0	46.7	0.0	93.4	0.0
Excess & Other Fees from Officers	(7.5)	0.0	(7.5)	0.0	(15.0)	0.0
Estate & Gifts	0.0	n/a	0.0	n/a	0.0	n/a
Institutional Revenues	5.8	0.0	5.8	0.0	11.6	0.0
Interest & Rents	83.4	(35.5)	106.4	27.6	189.8	(17.3)
Licenses & Permits	4.2	0.0	4.2	0.0	8.4	0.0
Miscellaneous Taxes and Penalties	232.2	0.3	232.7	0.2	464.9	0.4
Other Miscellaneous Revenues	30.5	0.0	30.5	0.0	61.0	(4.4)
Public Service GR / Consumption Tax	96.4	0.0	96.4	0.0	192.8	0.0
Total Misc. Taxes and Other Revenues	\$ 687.9	(6.7) %	\$ 714.3	3.8 %	\$ 1,402.2	(3.4) %
TOTAL GF REVENUES	\$ 15,272.3	3.8 %	\$ 16,056.4	5.1 %	\$ 31,328.7	7.1 %
TRANSFERS						
A.B.C. Profits	\$ 48.3	1.0 %	\$ 49.3	2.1 %	\$ 97.6	3.8 %
Sales Tax (0.25%)	222.9	2.7	232.5	4.3	455.4	5.5
Transfers Per Appropriations Act	80.4	(55.3)	80.4	0.0	160.8	(52.6)
Total Transfers	\$ 351.6	(20.9) %	\$ 362.2	3.0 %	\$ 713.8	(17.5) %
TOTAL GENERAL FUND	\$ 15,623.9	3.1 %	\$ 16,418.6	5.1 %	\$ 32,042.5	6.4 %

The November Pessimistic Alternative forecast is based on the October 2010 Global Insight Pessimistic Alternative outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

GENERAL FUND REVENUES

Legislative Changes Affecting the Forecast

Table 3.5 below lists the legislative and policy changes that affect the revenue forecast for fiscal years 2011 through 2014.

Table 3.5
Summary of Recent Legislation and Ongoing Policy Actions Affecting General Fund Revenues
(Millions of Dollars)

	FY11	FY12	FY13	FY14
CORPORATE INCOME TAX				
C. 781, 2009 - Captive REIT	5.0	10.0	10.0	10.0
C. 781, 2009 - TAX Compliance Initiatives	2.9	3.1	3.1	3.1
C. 781, 2009 - Single Sales Factor Apportionment		(3.8)	(7.6)	(14.3)
C. 874, 2010 - Job Tax Credit -- HB 624	(1.3)	(1.3)	(1.3)	(1.3)
C. 874, 2010 - Equity/Subordinated Debt	(1.0)			
C. 874, 2010 - Motion Picture Tax Credit		(2.5)	(2.5)	(2.5)
C. 874, 2010 - Section 108 conformity	24.5	14.5	(20.0)	(20.0)
INDIVIDUAL INCOME TAX				
C. 3, 2006 - Cap Land Preservation Tax Credit (Total Cost)	(125.0)	(150.0)	(150.0)	(100.0)
C. 847, 2007 - IRS Tax Conformity	14.8	14.6	14.5	14.5
C. 781, 2009 - IRS Tax Conformity	11.9	10.1	8.0	9.0
C. 781, 2009 - TAX Compliance Initiatives	16.2	17.1	17.1	17.1
C. 874, 2010 - Adjust Withholding for Military Spouses	(9.9)	(9.9)	(9.9)	(9.9)
C. 874, 2010 - Cap Section 199 Deductions (Phase-In)	10.0	20.0	30.0	30.0
C. 874, 2010 - Income Tax Credit for Landlords -- HB 764	0.1	0.1	0.1	0.1
STATE SALES AND USE TAX				
C. 781, 2009 - TAX Compliance Initiatives	3.7	3.9	3.9	3.9
C. 874, 2010 - Exemption for Economic Development Project -- SB 130		(0.3)		
C. 874, 2010 - Eliminate Dealer Discount (Partial)	49.1	49.1	49.1	49.1
WILLS, SUITS, DEEDS, AND CONTRACTS				
C. 847, 2007 - \$.03 of Recordation Tax to Transportation	(32.2)	(34.6)	(34.6)	(34.6)
INSURANCE PREMIUMS TAX				
C. 847, 2007 - 1/3 of Insurance Premiums Tax to Transportation	(130.3)	(136.0)	(142.1)	(149.0)
C. 874, 2010 - Provide Relief from Retaliatory Taxes		(0.8)	(0.8)	(0.8)
INTEREST				
C. 781, 2009 - TAX Compliance Initiatives	1.7	1.8	1.8	1.8
C. 874, 2010 - Interest on NGF Accounts	40.2	65.3		
FINES, FORFEITURES, AND FEES				
C. 781, 2009 - TAX Compliance Initiatives	2.2	2.3	2.3	2.3
C. 874, 2010 - Miscellaneous Fees and Adjustments	15.2	15.2	15.2	15.2

**SECTION 4
NON-GENERAL FUND
REVENUES**

Section 4 Non-General Fund Revenues

Transportation Revenues

Most state taxes and fees used to finance the state's transportation programs are deposited into two funds: the Highway Maintenance and Operating Fund (HMOF) and the Transportation Trust Fund (TTF). Maintenance and operating costs are financed by the HMOF, which consists of the traditional highway user taxes and fees. Construction costs are financed by the TTF, a fund created in 1986 by a special session of the General Assembly. The TTF consists of dedicated portions of highway user taxes and fees as well as a portion of the state sales and recordation taxes, interest earnings, and several miscellaneous sources. Within the Transportation Trust Fund is the Priority Transportation Fund (PTF) which was created in the 2000 legislative session. The PTF consists of Motor Fuel Tax revenues which are derived from the implementation of new procedures for taxing motor fuel at the terminal rack, insurance premiums, and interest payments.

Revenues used for the Commonwealth's transportation program are derived from the following taxes and fees:

- Motor Fuels and Road Use Taxes,
- a 3 percent Vehicle Sales and Use Tax,
- licensing fees,
- one-half cent State Retail Sales Tax,
- three cents of the State Recordation Tax,
- one-third of State Insurance Premiums Tax,
- International Registration Plan Fees,
- interest earnings, and
- other miscellaneous taxes and fees.

In addition, federal, local, and toll revenues are also used to finance transportation programs. These revenue sources, however, do not determine the fiscal capacity of the State's transportation program and, therefore, are not addressed here. Instead, the discussion focuses on revenues from state sources.

NON-GENERAL FUND REVENUES

Fiscal Year 2010 in Review

Table 4.1 compares actual collections in fiscal year 2010 to the official forecast for the Commonwealth Transportation Fund (CTF). Total transportation revenues totaled \$2.3 billion in fiscal year 2010, a decline of \$5.8 million over last year. Revenue collections fell by 0.3 percent as compared to the official forecast of a 3.0 percent decline, resulting in a forecast variance of 2.9 percent. This marks the first time that revenues have fallen in two consecutive years. The surplus in fiscal year 2010 collections can be attributed to unexpected growth in motor vehicle sales, and subsequently, the vehicle sales tax.

Table 4.1
Commonwealth Transportation Revenues
Actual Collections Compared to the Official Forecast for Fiscal Year 2010
(Millions of Dollars)

Revenue Sources	FY2009 Actual	FY2010 Actual	FY2010 Forecast	Percent Change 2009-2010		Forecast Variance	
				Actual	Forecast	Amount	Percent
Motor Fuels Tax	\$ 827.9	\$ 817.3	\$ 813.3	-1.3%	-1.8%	\$ 4.0	0.5%
Road Use Tax	9.4	11.2	8.6	19.1%	-8.5%	2.6	30.2%
Vehicle Sales Tax	413.2	444.1	392.8	7.5%	-4.9%	51.3	13.1%
Vehicle Licenses	241.6	230.2	239.9	-4.7%	-0.7%	(9.7)	-4.0%
State Sales Tax	499.4	490.7	478.3	-1.7%	-4.2%	12.4	2.6%
Recordation Tax	35.7	35.2	33.5	-1.4%	-6.2%	1.7	5.1%
Priority Transportation Fund	20.0	20.0	20.0	0.0%	0.0%	-	0.0%
Insurance Premiums Tax	132.3	129.1	129.1	-2.4%	-2.4%	-	0.0%
Int'l Registration Plan	59.0	59.8	58.6	1.4%	-0.7%	1.2	2.0%
Interest Earnings	27.7	23.0	23.9	-17.0%	-13.7%	(0.9)	-3.8%
Rental Tax	29.1	29.6	27.3	1.7%	-6.2%	2.3	-3.6%
Aviation Fuels Tax	2.1	1.7	2.1	-19.0%	0.0%	(0.4)	6.3%
Miscellaneous	12.9	12.7	12.7	-1.6%	-1.6%	-	-2.3%
TOTAL	\$ 2,310.3	\$ 2,304.5	\$ 2,240.1	-0.3%	-3.0%	\$ 64.4	2.9%

As required by Section 33.1-23.03:8A(2) of the Code of Virginia, all revenues that exceed the official forecast are deposited into the Priority Transportation Fund.

Revenues from motor fuels taxes (36 percent of the CTF) exceeded the forecast by \$4.0 million in fiscal year 2010. Motor fuels tax collections declined by 1.3 percent in fiscal year 2010. Nationally, a year-over-year decline in total liquid fuels consumption in the first quarter of calendar year 2010 was followed by a year-over-year rise in consumption in the

second quarter of 2010, led by increases in motor gasoline and diesel fuel consumption. During 2010 as a whole, gasoline and diesel fuel are projected to increase by 0.3 percent and 1.4 percent, respectively. Projected gasoline consumption growth increases to 0.8 percent in 2011 while diesel fuel consumption growth falls slightly to 1.2 percent.

Diesel fuel consumption reflects a different market than gasoline. Most diesel fuel is purchased and consumed by motor carriers, and reflects movement of freight through the state rather than commuter passenger travel. Motor carriers may purchase fuel in a state because fuel tax rates are lower than in other states. Motor carriers respond to the general economy more than passenger traffic. They tend to travel more miles when the economy is in expansion than when the economy is in recession.

Revenues from the motor vehicle sales and use tax (19 percent of the CTF) increased by 7.5 percent in fiscal year 2010. Sales of both new and used vehicles rebounded from a dismal fiscal year 2009. New car sales increased by 4.2 percent and used car sales increased by 4.0 percent. However, despite the slight bounce-back in vehicle sales in fiscal year 2010, vehicle sales volumes are at levels last seen fifteen years ago. Fiscal year 2010 new car sales are at fiscal year 1993 levels and used car sales are at fiscal year 1996 levels.

Revenues from the transportation share of the state retail sales tax (21 percent of the CTF) declined by 1.7 percent, well ahead of the 4.2 percent decline anticipated in the forecast. Solid retail activity in the final quarter of fiscal year 2010 boosted collections in this source.

Motor vehicle license fees (10 percent of the CTF) were \$9.7 million below the forecast in fiscal year 2010. Collections declined by \$11.4 million over the fiscal year 2009 level. The decline in revenues can be attributed to a 14.8 percent drop in heavy duty truck registration fees along with an unexpected fall in motor vehicle registration renewals.

International Registration Plan fees (3 percent of the CTF), the registration fees paid by interstate motor carriers, increased by 1.4 percent in fiscal year 2010. These fees, paid by all trucks driving through the Commonwealth, are based on vehicle weight and the miles traveled in Virginia.

Collectively, all other taxes and revenues (11 percent of the CTF) were \$5.3 million ahead of forecast in fiscal year 2010.

NON-GENERAL FUND REVENUES

Outlook for Key Tax Base Variables

Motor Fuel Consumption

Gasoline consumption increased by 0.8 percent compared to the official forecast of a 0.7 percent increase in fiscal year 2010. Diesel fuel consumption fell by 2.1 percent compared to the forecast of a 3.8 percent decline.

The Energy Information Administration forecasts that total U.S. liquid fuels consumption will grow by 1.1 percent in calendar year 2010 and 0.6 percent in calendar year 2011, as all of the major petroleum products register consumption growth. This reverses the trend of falling consumption from 2006 through 2009. During 2010 as a whole, gasoline consumption is projected to increase by 0.2 percent and diesel fuel consumption to increase by 2.7 percent. Projected gasoline consumption growth increases to 0.8 percent in 2011 while diesel fuel consumption growth moderates to 0.4 percent.

The price of West Texas Intermediate (WTI) crude oil is expected to average about \$80 per barrel this winter, a \$2.50-per-barrel increase over last winter. The forecast for average WTI prices rises gradually to \$85 per barrel by the fourth quarter of 2011 as U.S. and global economic conditions improve. Projected regular-grade gasoline retail prices rise from an average \$2.35 per gallon in 2009 to an average \$2.74 per gallon in 2010 and \$2.92 per gallon in 2011. On-highway diesel fuel retail prices, which averaged \$2.46 per gallon in 2009, average \$2.96 per gallon in 2010 and \$3.14 in 2011 in this forecast.

New Corporate Average Fuel Economy (CAFE) standards will have an impact on future motor fuels tax collections. In late 2007, CAFE standards received their first overhaul in more than 30 years. On December 19, President Bush signed into law the Energy Independence and Security Act of 2007, which requires in part that automakers boost fleetwide gas mileage to 35 mpg by the year 2020. This requirement applies to all passenger automobiles, including light trucks. This would increase the fuel economy standards by 40 percent. The fuel economy of new passenger vehicles improves from 27.6 mpg in 2008 to 40.0 mpg in 2035.

Table 4.2
Motor Fuel Consumption, History and Forecast, Fiscal Years 2010 - 2014
(Percent Growth)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Taxable Gallons - Gasoline					
Official	0.7	0.4	0.1	1.4	1.8
Standard	0.8	2.1	0.2	1.7	1.6
Alternative	0.8	0.5	(0.1)	(1.4)	0.7
Taxable Gallons - Diesel					
Official	(3.8)	4.8	5.2	0.6	0.7
Standard	(2.1)	3.3	5.4	3.8	1.3
Alternative	(2.1)	(0.5)	(0.1)	0.2	0.5

Vehicle Sales

The official forecast anticipated another dismal year for vehicle sales in fiscal year 2010. New and used vehicle sales both surprised on the upside in fiscal year 2010. The federal government's Cash for Clunkers program provided a spike in new vehicle sales in the first quarter of the fiscal year and sales remained solid throughout the year.

Table 4.3 shows the official and November 2010 forecast for new and used vehicles. The discussion of the vehicle sales outlook is divided into two sections: new taxable titles and used taxable titles.

Table 4.3
Virginia Vehicle Market, History and Forecast, Fiscal Years 2010 - 2014
(Percent Growth)

		Fiscal Years			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
New Taxable Titles					
Official	(8.3)	13.6	5.7	5.8	3.7
Standard	4.2	5.5	7.5	10.0	0.7
Alternative	4.2	1.0	(5.0)	13.0	9.8
Used Taxable Titles					
Official	(1.7)	2.7	3.6	2.2	2.1
Standard	4.0	3.1	5.1	3.2	1.7
Alternative	4.0	5.9	1.2	4.1	6.5

New Taxable Titles: In fiscal year 2010, approximately 284,900 new vehicles were titled in Virginia, a decline of about 11,400 from fiscal year 2009. The official forecast anticipated a decline of about 22,800 new cars. Even with solid growth in fiscal year 2010, new car sales were at a level equivalent to the fiscal year 1993 level.

The November forecast expects further growth over the forecast horizon as the large number of vehicles purchased in fiscal years 2004 through 2006 are due for replacement. Vehicle sales are expected to face substantial headwinds over the next 18 months. Vehicle sales are strongly linked to employment conditions and consumer sentiment, both of which are not expected to support to sales in the coming months.

Labor market conditions remain bleak. Credit conditions remain tight and consumer confidence remains depressed as well. Fleet sales have accounted for an outsized share of national sales this year, while retail sales have remained deeply depressed. A concern for the coming months is the possibility that rental vehicle and corporate purchases will flag while retail sales remain weak.

NON-GENERAL FUND REVENUES

Used Taxable Titles: About 1.1 million used cars were sold in Virginia in fiscal year 2010, an increase of 4.0 percent. Used car sales generally follow a sales pattern similar to new car sales. High unemployment rates and the uncertainty surrounding the availability of credit, particularly access to credit for subprime buyers, are expected to result in tepid growth for used vehicle sales.

November 2010 Commonwealth Transportation Fund Forecast

Table 4.4 on the following pages presents a comparison of the November 2010 standard forecast and the official forecast.

During the 2007 session of the General Assembly, House Bill 3202 was passed by both houses of the General Assembly and signed into law by the Governor as Chapter 896. Chapter 896 provided a considerable influx of new revenues into the Commonwealth Transportation Fund. Motor vehicle license fees, motor fuels taxes, and miscellaneous revenues have been adjusted to reflect these new revenues. In addition, Chapter 896 provided for one-third of the insurance premiums tax and 3 cents (of the 25 cents) of the recordation tax to be deposited into the Commonwealth Transportation Fund beginning in fiscal year 2009.

As compared to the official forecast, total transportation fund revenues are \$91.3 million higher in fiscal year 2011. Fiscal year 2012 shows a similar change in the November forecast. Fiscal year 2011 revenue collections are estimated to increase 4.0 percent, reversing the downward trend in Commonwealth Transportation Fund revenues over the last two years.

The motor fuels tax is the single largest revenue source in the Commonwealth Transportation Fund and is expected to increase by 3.2 percent in fiscal year 2011 and 1.3 percent in fiscal year 2012.

Motor vehicle sales and use tax collections are expected to increase by 7.0 percent in fiscal year 2011 and 5.1 percent in fiscal year 2012.

State retail sales and use tax revenues are projected to increase by 2.4 percent in fiscal year 2011 after adjusting for the funds that were retained in the general fund in fiscal year 2010 as part of the accelerated sales tax program. These retained funds were designated to be returned to the transportation fund in fiscal year 2011.

NON-GENERAL FUND REVENUES

Table 4.4
The Official and November Commonwealth Transportation Fund Forecast for Fiscal Year 2011
(Dollars in Millions)

November 1, 2010

	Fiscal Year 2010		Fiscal Year 2011				
	Actual	% Growth	Official Forecast	November Forecast	Change	% Growth over FY 10	
						Official	November
Highway Maintenance & Operating Fund							
Motor Fuels Tax	\$ 710.8	(1.3) %	\$ 726.3	\$ 736.4	\$ 10.1	2.2 %	3.6 %
Road Tax	4.2	180.0	0.5	3.4	2.9	88.1	(19.0)
Motor Vehicle Sales And Use Tax	289.5	7.3	272.7	309.8	37.1	(5.8)	7.0
Motor Vehicle License Fees	209.5	(4.8)	221.3	213.7	(7.6)	5.6	2.0
International Registration Plan	59.8	1.4	60.3	61.3	1.0	0.8	2.5
Recordation Tax (1 cent)	11.7	n/a	11.2	10.7	(0.5)	(4.3)	(8.5)
Miscellaneous	12.8	(2.3)	12.7	12.7	0.0	(0.8)	(0.8)
Total State Taxes and Fees	\$ 1,298.3	0.2 %	\$ 1,305.0	\$ 1,348.0	\$ 43.0	0.5 %	3.8 %
Transportation Trust Fund							
Motor Fuels Tax	\$ 106.4	1.2 %	\$ 104.9	\$ 106.6	\$ 1.7	(1.4) %	0.2 %
Priority Transportation Trust Fund Base	149.1	(2.1)	148.2	150.3	2.1	(0.6)	0.8
Insurance Premiums Tax (1/3)	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Road Tax	129.1	(2.4)	128.2	130.3	2.1	(0.7)	0.9
Motor Vehicle Sales And Use Tax	6.9	(12.7)	7.5	7.4	(0.1)	8.7	7.2
Motor Vehicle License Fees	154.6	7.7	149.3	165.2	15.9	(3.4)	6.9
Retail Sales and Use Tax	20.7	(4.2)	21.2	21.1	(0.1)	2.4	1.9
Recordation Tax (2 cents)	490.7	(1.7)	488.6	478.1	(10.5)	(0.4)	(2.6)
Interest Earnings	23.5	(1.3)	22.3	21.5	(0.8)	(5.1)	(8.5)
Rental Tax	23.0	(17.0)	30.6	38.6	8.0	33.0	67.8
Aviation Fuels Tax	29.6	1.7	26.7	31.5	4.8	(9.8)	6.4
Total State Taxes and Fees	\$ 1,006.2	(0.6) %	\$ 1,001.4	\$ 1,022.0	\$ 20.6	(0.5) %	1.6 %
Total HMOF And TTF							
Motor Fuels Tax	\$ 817.2	(0.9) %	\$ 831.2	\$ 843.0	\$ 11.8	1.7 %	3.2 %
Priority Transportation Trust Fund Base	149.1	(2.1)	148.2	150.3	2.1	(0.6)	0.8
Insurance Premiums Tax (1/3)	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Road Tax	129.1	(2.4)	128.2	130.3	2.1	(0.7)	0.9
Motor Vehicle Sales and Use Tax	11.1	18.1	8.0	10.8	2.8	(27.9)	(2.7)
Motor Vehicle License Fees	444.1	7.5	422.0	475.0	53.0	(5.0)	7.0
International Registration Plan	230.2	(4.7)	242.5	234.8	(7.7)	5.3	2.0
Retail Sales and Use Tax	59.8	1.4	60.3	61.3	1.0	0.8	2.5
Recordation Tax (3 cents)	490.7	(1.7)	488.6	478.1	(10.5)	(0.4)	(2.6)
Interest Earnings	35.2	(1.4)	33.5	32.2	(1.3)	(4.8)	(8.5)
Rental Tax	23.0	(17.0)	30.6	38.6	8.0	33.0	67.8
Aviation Fuels Tax	29.6	1.7	26.7	31.5	4.8	(9.8)	6.4
Miscellaneous	1.7	(20.1)	2.1	1.7	(0.4)	23.5	0.0
Total State Taxes and Fees	\$ 2,304.5	(0.1) %	\$ 2,306.4	\$ 2,370.0	\$ 63.6	0.1 %	2.8 %
Transfers per the Appropriations Act							
Retail Sales Tax - AST Retention	0.0	n/a	0.0	27.7	27.7	n/a	n/a
Total Transfers	0.0	n/a	\$ 0.0	\$ 27.7	\$ 27.7	n/a	n/a %
Total Transportation Fund	2,304.5	(0.1)	\$ 2,306.4	\$ 2,397.7	\$ 91.3	0.1 %	4.0 %

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and includes actions of the 2010 General Assembly session.

The November forecast is based on the October 2010 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

NON-GENERAL FUND REVENUES

Table 4.4
The Official and November Commonwealth Transportation Fund Forecast for Fiscal Year 2012
(Dollars in Millions)

November 1, 2010

	Fiscal Year 2012				
	Official Forecast	November Forecast	Change	% Growth over FY 11	
				Official	November
Highway Maintenance & Operating Fund					
Motor Fuels Tax	\$ 735.3	\$ 746.5	\$ 11.2	1.2 %	1.4 %
Road Tax	0.3	3.4	3.1	(40.0)	0.0
Motor Vehicle Sales And Use Tax	288.9	325.4	36.5	5.9	5.0
Motor Vehicle License Fees	222.2	216.1	(6.1)	0.4	1.1
International Registration Plan	62.0	63.2	1.2	2.8	3.1
Recordation Tax (1 cent)	11.2	11.5	0.3	0.0	7.5
Miscellaneous	12.7	12.9	0.2	0.0	1.6
Total State Taxes and Fees (HMOF)	\$ 1,332.6	\$ 1,379.0	\$ 46.4	2.1 %	2.3 %
Transportation Trust Fund					
Motor Fuels Tax	\$ 105.5	\$ 107.3	\$ 1.8	0.6 %	0.7 %
Priority Transportation Trust Fund Base	154.2	156.0	1.8	4.0	3.8
Insurance Premiums Tax (1/3)	20.0	20.0	0.0	0.0	0.0
Road Tax	134.2	136.0	1.8	4.7	4.4
Motor Vehicle Sales And Use Tax	7.9	7.8	(0.1)	5.3	5.4
Motor Vehicle License Fees	157.4	173.6	16.2	5.4	5.1
Retail Sales and Use Tax	21.3	21.3	0.0	0.5	0.9
Recordation Tax (2 cents)	504.4	521.0	16.6	3.2	9.0
Interest Earnings	22.3	23.1	0.8	0.0	7.4
Rental Tax	28.7	27.8	(0.9)	(6.2)	(28.0)
Aviation Fuels Tax	26.9	32.1	5.2	0.7	1.9
Total State Taxes and Fees (TTF)	\$ 1,030.7	\$ 1,071.8	\$ 41.1	2.9 %	4.9 %
Total HMOF And TTF					
Motor Fuels Tax	\$ 840.8	\$ 853.8	\$ 13.0	1.2 %	1.3 %
Priority Transportation Trust Fund Base	154.2	156.0	1.8	4.0	3.8
Insurance Premiums Tax (1/3)	20.0	20.0	0.0	0.0	0.0
Road Tax	134.2	136.0	1.8	4.7	4.4
Motor Vehicle Sales and Use Tax	8.2	11.2	3.0	2.5	3.7
Motor Vehicle License Fees	446.3	499.0	52.7	5.8	5.1
International Registration Plan	243.5	237.4	(6.1)	0.4	1.1
Retail Sales and Use Tax	62.0	63.2	1.2	2.8	3.1
Recordation Tax (3 cents)	504.4	521.0	16.6	3.2	9.0
Interest Earnings	33.5	34.6	1.1	0.0	7.5
Rental Tax	28.7	27.8	(0.9)	(6.2)	(28.0)
Aviation Fuels Tax	26.9	32.1	5.2	0.7	1.9
Miscellaneous	2.1	1.8	(0.3)	0.0	5.9
Total State Taxes and Fees	\$ 2,363.3	\$ 2,450.8	\$ 87.5	2.5 %	3.4 %
Transfers per the Appropriations Act					
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a
Total Transfers	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %
Total Transportation Fund	\$ 2,363.3	\$ 2,450.8	\$ 87.5	2.5 %	2.2 %

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and includes actions of the 2010 General Assembly session.

The November forecast is based on the October 2010 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

NON-GENERAL FUND REVENUES

Table 4.4
The Official and November Commonwealth Transportation Fund Forecast for Fiscal Year 2013
(Dollars in Millions)

November 1, 2010

	Fiscal Year 2013				
	Official Forecast	November Forecast	Change	% Growth over FY 12	
				Official	November
Highway Maintenance & Operating Fund					
Motor Fuels Tax	\$ 744.5	\$ 762.6	\$ 18.1	1.3 %	2.2 %
Road Tax	0.3	(0.3)	(0.6)	0.0	(108.8)
Motor Vehicle Sales And Use Tax	308.6	351.5	42.9	6.8	8.0
Motor Vehicle License Fees	226.1	224.2	(1.9)	1.8	3.7
International Registration Plan	63.7	65.2	1.5	2.7	3.2
Recordation Tax (1 cent)	11.2	11.5	0.3	0.0	0.0
Miscellaneous	12.7	12.9	0.2	0.0	0.0
Total State Taxes and Fees (HMOF)	\$ 1,367.1	\$ 1,427.6	\$ 60.5	2.6 %	3.5 %
Transportation Trust Fund					
Motor Fuels Tax	\$ 107.0	\$ 109.3	\$ 2.3	1.4 %	1.9 %
Priority Transportation Trust Fund	162.1	162.1	0.0	5.1	3.9
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	142.1	142.1	0.0	5.9	4.5
Road Tax	8.0	7.8	(0.2)	1.3	0.0
Motor Vehicle Sales And Use Tax	167.3	187.5	20.2	6.3	8.0
Motor Vehicle License Fees	21.6	22.0	0.4	1.4	3.3
Retail Sales and Use Tax	524.2	542.3	18.1	3.9	4.1
Recordation Tax (2 cents)	22.3	23.1	0.8	0.0	0.0
Interest Earnings	28.3	24.3	(4.0)	(1.4)	(12.6)
Rental Tax	27.3	33.2	5.9	1.5	3.4
Aviation Fuels Tax	2.1	1.8	(0.3)	0.0	0.0
Total State Taxes and Fees (TTF)	\$ 1,070.2	\$ 1,113.4	\$ 43.2	3.8 %	3.9 %
Total HMOF And TTF					
Motor Fuels Tax	\$ 851.5	\$ 871.9	\$ 20.4	1.3 %	2.1 %
Priority Transportation Trust Fund	162.1	162.1	0.0	5.1	3.9
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	142.1	142.1	0.0	5.9	4.5
Road Tax	8.3	7.5	(0.8)	1.2	(33.0)
Motor Vehicle Sales and Use Tax	475.9	539.0	63.1	6.6	8.0
Motor Vehicle License Fees	247.7	246.2	(1.5)	1.7	3.7
International Registration Plan	63.7	65.2	1.5	2.7	3.2
Retail Sales and Use Tax	524.2	542.3	18.1	3.9	4.1
Recordation Tax (3 cents)	33.5	34.6	1.1	0.0	0.0
Interest Earnings	28.3	24.3	(4.0)	(1.4)	(12.6)
Rental Tax	27.3	33.2	5.9	1.5	3.4
Aviation Fuels Tax	2.1	1.8	(0.3)	0.0	0.0
Miscellaneous	12.7	12.9	0.2	0.0	0.0
Total State Taxes and Fees	\$ 2,437.3	\$ 2,541.0	\$ 103.7	3.1 %	3.7 %
Transfers per the Appropriations Act					
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a
Total Transfers	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %
Total Transportation Fund	\$ 2,437.3	\$ 2,541.0	\$ 103.7	3.1 %	3.7 %

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and includes actions of the 2010 General Assembly session.

The November forecast is based on the October 2010 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

NON-GENERAL FUND REVENUES

Table 4.4
The Official and November Commonwealth Transportation Fund Forecast for Fiscal Year 2014
(Dollars in Millions)

November 1, 2010

	Fiscal Year 2014				
	Official Forecast	November Forecast	Change	% Growth over FY 13	
				Official	November
Highway Maintenance & Operating Fund					
Motor Fuels Tax	\$ 756.0	\$ 774.3	\$ 18.3	1.5 %	1.5 %
Road Tax	0.2	(0.3)	(0.5)	(33.3)	0.0
Motor Vehicle Sales And Use Tax	327.1	363.7	36.6	6.0	3.5
Motor Vehicle License Fees	225.2	224.8	(0.4)	(0.4)	0.3
International Registration Plan	65.5	67.2	1.7	2.8	3.1
Recordation Tax (1 cent)	11.2	11.5	0.3	0.0	0.0
Miscellaneous	12.7	12.9	0.2	0.0	0.0
Total State Taxes and Fees (HMOF)	\$ 1,397.9	\$ 1,454.1	\$ 56.2	2.3 %	1.9 %
Transportation Trust Fund					
Motor Fuels Tax	\$ 108.8	\$ 111.1	\$ 2.3	1.7 %	1.6 %
Priority Transportation Trust Fund	169.7	169.0	(0.7)	4.7	4.3
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	149.7	149.0	(0.7)	5.3	4.9
Road Tax	8.0	7.9	(0.1)	0.0	1.3
Motor Vehicle Sales And Use Tax	176.5	194.0	17.5	5.5	3.5
Motor Vehicle License Fees	21.5	22.0	0.5	(0.5)	0.0
Retail Sales and Use Tax	547.2	564.2	17.0	4.4	4.0
Recordation Tax (2 cents)	22.3	23.1	0.8	0.0	0.0
Interest Earnings	27.5	24.2	(3.3)	(2.8)	(0.4)
Rental Tax	27.7	34.3	6.6	1.5	3.3
Aviation Fuels Tax	2.1	1.8	(0.3)	0.0	0.0
Total State Taxes and Fees (TTF)	\$ 1,111.3	\$ 1,151.6	\$ 40.3	3.8 %	3.4 %
Total HMOF And TTF					
Motor Fuels Tax	\$ 864.8	\$ 885.4	\$ 20.6	1.6 %	1.5 %
Priority Transportation Trust Fund	169.7	169.0	(0.7)	4.7	4.3
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	149.7	149.0	(0.7)	5.3	4.9
Road Tax	8.2	7.6	(0.6)	(1.2)	1.3
Motor Vehicle Sales and Use Tax	503.6	557.7	54.1	5.8	3.5
Motor Vehicle License Fees	246.7	246.8	0.1	(0.4)	0.2
International Registration Plan	65.5	67.2	1.7	2.8	3.1
Retail Sales and Use Tax	547.2	564.2	17.0	4.4	4.0
Recordation Tax (3 cents)	33.5	34.6	1.1	0.0	0.0
Interest Earnings	27.5	24.2	(3.3)	(2.8)	(0.4)
Rental Tax	27.7	34.3	6.6	1.5	3.3
Aviation Fuels Tax	2.1	1.8	(0.3)	0.0	0.0
Miscellaneous	12.7	12.9	0.2	0.0	0.0
Total State Taxes and Fees	\$ 2,509.2	\$ 2,605.7	\$ 96.5	2.9 %	2.5 %
Transfers per the Appropriations Act					
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a
Total Transfers	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %
Total Transportation Fund	\$ 2,509.2	\$ 2,605.7	\$ 96.5	2.9 %	2.5 %

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and includes actions of the 2010 General Assembly session.

The November forecast is based on the October 2010 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

The Alternative Forecast

Table 4.5 on the following pages compares the official and November pessimistic alternative Commonwealth Transportation Fund forecasts. Under the alternative forecast, total revenues are expected to be \$63.8 million higher in fiscal year 2011, \$11.1 million lower in fiscal year 2012, and \$25.8 million and \$5.8 million lower in fiscal years 2013 and 2014, respectively, as compared to the official forecast. As compared to the November standard forecast, revenues would total \$357.9 million lower over the next four fiscal years.

This forecast is based on an economic scenario in which economic growth stalls in the latter part of 2010, with an outright employment contraction in the spring of 2011. The private sector recovery is undercut as unstable financial markets, tight credit, and persistently high unemployment cause consumers to retrench.

NON-GENERAL FUND REVENUES

Table 4.5
The Official and November Alternative Transportation Fund Forecast for Fiscal Year 2011
(Dollars in Millions)

November 1, 2010

	Fiscal Year 2010		Fiscal Year 2011				
	Actual	% Growth	Official Forecast	November Forecast	Change	% Growth over FY 10	
						Official	November
Highway Maintenance & Operating Fund							
Motor Fuels Tax	\$ 710.8	(1.3) %	\$ 726.3	\$ 721.3	\$ (5.0)	2.2 %	1.5 %
Road Tax	4.2	180.0	0.5	3.4	2.9	88.1	(19.0)
Motor Vehicle Sales And Use Tax	289.5	7.3	272.7	306.7	34.0	(5.8)	5.9
Motor Vehicle License Fees	209.5	(4.8)	221.3	211.6	(9.7)	5.6	1.0
International Registration Plan	59.8	1.4	60.3	61.3	1.0	0.8	2.5
Recordation Tax (1 cent)	11.7	n/a	11.2	10.4	(0.8)	(4.3)	(11.1)
Miscellaneous	12.8	(2.3)	12.7	12.7	0.0	(0.8)	(0.8)
Total State Taxes and Fees	\$ 1,298.3	0.2 %	\$ 1,305.0	\$ 1,327.4	\$ 22.4	0.5 %	2.2 %
Transportation Trust Fund							
Motor Fuels Tax	\$ 106.4	1.2 %	\$ 104.9	\$ 104.6	\$ (0.3)	(1.4) %	(1.7) %
Priority Transportation Trust Fund	149.1	(2.1)	148.2	150.3	2.1	(0.6)	0.8
Base	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	129.1	(2.4)	128.2	130.3	2.1	(0.7)	0.9
Road Tax	6.9	(12.7)	7.5	7.4	(0.1)	8.7	7.2
Motor Vehicle Sales And Use Tax	154.6	7.7	149.3	163.6	14.3	(3.4)	5.8
Motor Vehicle License Fees	20.7	(4.2)	21.2	21.0	(0.2)	2.4	1.4
Retail Sales and Use Tax	490.7	(1.7)	488.6	475.6	(13.0)	(0.4)	(3.1)
Recordation Tax (2 cents)	23.5	(1.3)	22.3	20.8	(1.5)	(5.1)	(11.5)
Interest Earnings	23.0	(17.0)	30.6	38.6	8.0	33.0	67.8
Rental Tax	29.6	1.7	26.7	31.5	4.8	(9.8)	6.4
Aviation Fuels Tax	1.7	(20.1)	2.1	1.7	(0.4)	23.5	0.0
Total State Taxes and Fees	\$ 1,006.2	(0.6) %	\$ 1,001.4	\$ 1,015.1	\$ 13.7	(0.5) %	0.9 %
Total HMOF And TTF							
Motor Fuels Tax	\$ 817.2	(0.9) %	\$ 831.2	\$ 825.9	\$ (5.3)	1.7 %	1.1 %
Priority Transportation Trust Fund	149.1	(2.1)	148.2	150.3	2.1	(0.6)	0.8
Base	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	129.1	(2.4)	128.2	130.3	2.1	(0.7)	0.9
Road Tax	11.1	18.1	8.0	10.8	2.8	(27.9)	(2.7)
Motor Vehicle Sales and Use Tax	444.1	7.5	422.0	470.3	48.3	(5.0)	5.9
Motor Vehicle License Fees	230.2	(4.7)	242.5	232.6	(9.9)	5.3	1.0
International Registration Plan	59.8	1.4	60.3	61.3	1.0	0.8	2.5
Retail Sales and Use Tax	490.7	(1.7)	488.6	475.6	(13.0)	(0.4)	(3.1)
Recordation Tax (3 cents)	35.2	(1.4)	33.5	31.2	(2.3)	(4.8)	(11.4)
Interest Earnings	23.0	(17.0)	30.6	38.6	8.0	33.0	67.8
Rental Tax	29.6	1.7	26.7	31.5	4.8	(9.8)	6.4
Aviation Fuels Tax	1.7	(20.1)	2.1	1.7	(0.4)	23.5	0.0
Miscellaneous	12.8	(2.3)	12.7	12.7	0.0	(0.8)	(0.8)
Total State Taxes and Fees	\$ 2,304.5	(0.1) %	\$ 2,306.4	\$ 2,342.5	\$ 36.1	0.1 %	1.6 %
Transfers per the Appropriations Act							
Retail Sales Tax - AST Retention	0.0	n/a	0.0	27.7	27.7	n/a	n/a
Total Transfers	0.0	n/a	\$ 0.0	\$ 27.7	\$ 27.7	n/a	n/a
Total Transportation Fund	2,304.5	(0.1)	\$ 2,306.4	\$ 2,370.2	\$ 63.8	0.1 %	2.9 %

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and includes actions of the 2010 General Assembly session.

The November forecast is based on the October 2010 Global Insight alternative outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

NON-GENERAL FUND REVENUES

Table 4.5
The Official and November Alternative Transportation Fund Forecast for Fiscal Year 2012
(Dollars in Millions)

November 1, 2010

	Fiscal Year 2012				
	Official Forecast	November Forecast	Change	% Growth over FY 11	
				Official	November
Highway Maintenance & Operating Fund					
Motor Fuels Tax	\$ 735.3	\$ 720.2	\$ (15.1)	1.2 %	(0.2) %
Road Tax	0.3	3.4	3.1	(40.0)	0.0
Motor Vehicle Sales And Use Tax	288.9	297.7	8.8	5.9	(2.9)
Motor Vehicle License Fees	222.2	212.7	(9.5)	0.4	0.5
International Registration Plan	62.0	63.2	1.2	2.8	3.1
Recordation Tax (1 cent)	11.2	8.0	(3.2)	0.0	(23.1)
Miscellaneous	12.7	12.9	0.2	0.0	1.6
Total State Taxes and Fees (HMOF)	\$ 1,332.6	\$ 1,318.1	\$ (14.5)	2.1 %	(0.7) %
Transportation Trust Fund					
Motor Fuels Tax	\$ 105.5	\$ 104.5	\$ (1.0)	0.6 %	(0.1) %
Priority Transportation Trust Fund	154.2	155.4	1.2	4.0	3.4
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	134.2	135.4	1.2	4.7	3.9
Road Tax	7.9	7.8	(0.1)	5.3	5.4
Motor Vehicle Sales And Use Tax	157.4	158.8	1.4	5.4	(2.9)
Motor Vehicle License Fees	21.3	21.1	(0.2)	0.5	0.5
Retail Sales and Use Tax	504.4	508.9	4.5	3.2	7.0
Recordation Tax (2 cents)	22.3	15.9	(6.4)	0.0	(23.6)
Interest Earnings	28.7	27.8	(0.9)	(6.2)	(28.0)
Rental Tax	26.9	32.1	5.2	0.7	1.9
Aviation Fuels Tax	2.1	1.8	(0.3)	0.0	5.9
Total State Taxes and Fees (TTF)	\$ 1,030.7	\$ 1,034.1	\$ 3.4	2.9 %	1.9 %
Total HMOF And TTF					
Motor Fuels Tax	\$ 840.8	\$ 824.7	\$ (16.1)	1.2 %	(0.1) %
Priority Transportation Trust Fund	154.2	155.4	1.2	4.0	3.4
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	134.2	135.4	1.2	4.7	3.9
Road Tax	8.2	11.2	3.0	2.5	3.7
Motor Vehicle Sales and Use Tax	446.3	456.5	10.2	5.8	(2.9)
Motor Vehicle License Fees	243.5	233.8	(9.7)	0.4	0.5
International Registration Plan	62.0	63.2	1.2	2.8	3.1
Retail Sales and Use Tax	504.4	508.9	4.5	3.2	7.0
Recordation Tax (3 cents)	33.5	23.9	(9.6)	0.0	(23.4)
Interest Earnings	28.7	27.8	(0.9)	(6.2)	(28.0)
Rental Tax	26.9	32.1	5.2	0.7	1.9
Aviation Fuels Tax	2.1	1.8	(0.3)	0.0	5.9
Miscellaneous	12.7	12.9	0.2	0.0	1.6
Total State Taxes and Fees	\$ 2,363.3	\$ 2,352.2	\$ (11.1)	2.5 %	0.4 %
Transfers per the Appropriations Act					
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a
Total Transfers	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %
Total Transportation Fund	\$ 2,363.3	\$ 2,352.2	\$ (11.1)	2.5 %	(0.8) %

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and includes actions of the 2010 General Assembly session.

The November forecast is based on the October 2010 Global Insight alternative outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

NON-GENERAL FUND REVENUES

Table 4.5
The Official and November Alternative Transportation Fund Forecast for Fiscal Year 2013
(Dollars in Millions)

November 1, 2010

	Fiscal Year 2013				
	Official Forecast	November Forecast	Change	% Growth over FY 12	
				Official	November
Highway Maintenance & Operating Fund					
Motor Fuels Tax	\$ 744.5	\$ 712.7	\$ (31.8)	1.3 %	(1.0) %
Road Tax	0.3	(0.3)	(0.6)	0.0	(108.8)
Motor Vehicle Sales And Use Tax	308.6	327.3	18.7	6.8	9.9
Motor Vehicle License Fees	226.1	220.9	(5.2)	1.8	3.9
International Registration Plan	63.7	65.2	1.5	2.7	3.2
Recordation Tax (1 cent)	11.2	8.0	(3.2)	0.0	0.0
Miscellaneous	12.7	12.9	0.2	0.0	0.0
Total State Taxes and Fees (HMOF)	\$ 1,367.1	\$ 1,346.7	\$ (20.4)	2.6 %	2.2 %
Transportation Trust Fund					
Motor Fuels Tax	\$ 107.0	\$ 103.2	\$ (3.8)	1.4 %	(1.2) %
Priority Transportation Trust Fund	162.1	159.9	(2.2)	5.1	2.9
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	142.1	139.9	(2.2)	5.9	3.3
Road Tax	8.0	7.8	(0.2)	1.3	0.0
Motor Vehicle Sales And Use Tax	167.3	174.6	7.3	6.3	9.9
Motor Vehicle License Fees	21.6	21.7	0.1	1.4	2.8
Retail Sales and Use Tax	524.2	522.4	(1.8)	3.9	2.7
Recordation Tax (2 cents)	22.3	15.9	(6.4)	0.0	0.0
Interest Earnings	28.3	24.3	(4.0)	(1.4)	(12.6)
Rental Tax	27.3	33.2	5.9	1.5	3.4
Aviation Fuels Tax	2.1	1.8	(0.3)	0.0	0.0
Total State Taxes and Fees (TTF)	\$ 1,070.2	\$ 1,064.8	\$ (5.4)	3.8 %	3.0 %
Total HMOF And TTF					
Motor Fuels Tax	\$ 851.5	\$ 815.9	\$ (35.6)	1.3 %	(1.1) %
Priority Transportation Trust Fund	162.1	159.9	(2.2)	5.1	2.9
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	142.1	139.9	(2.2)	5.9	3.3
Road Tax	8.3	7.5	(0.8)	1.2	(33.0)
Motor Vehicle Sales and Use Tax	475.9	501.9	26.0	6.6	9.9
Motor Vehicle License Fees	247.7	242.6	(5.1)	1.7	3.8
International Registration Plan	63.7	65.2	1.5	2.7	3.2
Retail Sales and Use Tax	524.2	522.4	(1.8)	3.9	2.7
Recordation Tax (3 cents)	33.5	23.9	(9.6)	0.0	0.0
Interest Earnings	28.3	24.3	(4.0)	(1.4)	(12.6)
Rental Tax	27.3	33.2	5.9	1.5	3.4
Aviation Fuels Tax	2.1	1.8	(0.3)	0.0	0.0
Miscellaneous	12.7	12.9	0.2	0.0	0.0
Total State Taxes and Fees	\$ 2,437.3	\$ 2,411.5	\$ (25.8)	3.1 %	2.5 %
Transfers per the Appropriations Act					
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a
Total Transfers	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %
Total Transportation Fund	\$ 2,437.3	\$ 2,411.5	\$ (25.8)	3.1 %	2.5 %

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and includes actions of the 2010 General Assembly session.

The November forecast is based on the October 2010 Global Insight alternative outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

NON-GENERAL FUND REVENUES

Table 4.5
The Official and November Alternative Transportation Fund Forecast for Fiscal Year 2014
(Dollars in Millions)

November 1, 2010

	Fiscal Year 2014				
	Official Forecast	November Forecast	Change	% Growth over FY 13	
				Official	November
Highway Maintenance & Operating Fund					
Motor Fuels Tax	\$ 756.0	\$ 717.4	\$ (38.6)	1.5 %	0.7 %
Road Tax	0.2	(0.3)	(0.5)	(33.3)	0.0
Motor Vehicle Sales And Use Tax	327.1	363.6	36.5	6.0	11.1
Motor Vehicle License Fees	225.2	221.4	(3.8)	(0.4)	0.2
International Registration Plan	65.5	67.2	1.7	2.8	3.1
Recordation Tax (1 cent)	11.2	8.0	(3.2)	0.0	0.0
Miscellaneous	12.7	12.9	0.2	0.0	0.0
Total State Taxes and Fees (HMOF)	\$ 1,397.9	\$ 1,390.2	\$ (7.7)	2.3 %	3.2 %
Transportation Trust Fund					
Motor Fuels Tax	\$ 108.8	\$ 103.9	\$ (4.9)	1.7 %	0.7 %
Priority Transportation Trust Fund	169.7	164.8	(4.9)	4.7	3.1
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	149.7	144.8	(4.9)	5.3	3.5
Road Tax	8.0	7.9	(0.1)	0.0	1.3
Motor Vehicle Sales And Use Tax	176.5	193.9	17.4	5.5	11.1
Motor Vehicle License Fees	21.5	21.8	0.3	(0.5)	0.5
Retail Sales and Use Tax	547.2	544.7	(2.5)	4.4	4.3
Recordation Tax (2 cents)	22.3	15.9	(6.4)	0.0	0.0
Interest Earnings	27.5	24.2	(3.3)	(2.8)	(0.4)
Rental Tax	27.7	34.3	6.6	1.5	3.3
Aviation Fuels Tax	2.1	1.8	(0.3)	0.0	0.0
Total State Taxes and Fees (TTF)	\$ 1,111.3	\$ 1,113.2	\$ 1.9	3.8 %	4.5 %
Total HMOF And TTF					
Motor Fuels Tax	\$ 864.8	\$ 821.3	\$ (43.5)	1.6 %	0.7 %
Priority Transportation Trust Fund	169.7	164.8	(4.9)	4.7	3.1
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	149.7	144.8	(4.9)	5.3	3.5
Road Tax	8.2	7.6	(0.6)	(1.2)	1.3
Motor Vehicle Sales and Use Tax	503.6	557.5	53.9	5.8	11.1
Motor Vehicle License Fees	246.7	243.2	(3.5)	(0.4)	0.2
International Registration Plan	65.5	67.2	1.7	2.8	3.1
Retail Sales and Use Tax	547.2	544.7	(2.5)	4.4	4.3
Recordation Tax (3 cents)	33.5	23.9	(9.6)	0.0	0.0
Interest Earnings	27.5	24.2	(3.3)	(2.8)	(0.4)
Rental Tax	27.7	34.3	6.6	1.5	3.3
Aviation Fuels Tax	2.1	1.8	(0.3)	0.0	0.0
Miscellaneous	12.7	12.9	0.2	0.0	0.0
Total State Taxes and Fees	\$ 2,509.2	\$ 2,503.4	\$ (5.8)	2.9 %	3.8 %
Transfers per the Appropriations Act					
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a
Total Transfers	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %
Total Transportation Fund	\$ 2,509.2	\$ 2,503.4	\$ (5.8)	2.9 %	3.8 %

The Official forecast is based on the October 2009 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and includes actions of the 2010 General Assembly session.

The November forecast is based on the October 2010 Global Insight alternative outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

NON-GENERAL FUND REVENUES

Alcoholic Beverage Control Revenues and Profits Fiscal Year 2010

In fiscal year 2010, ABC's total income, excluding state tax receipts, was \$584.7 million. Gross sales of alcoholic beverages in the retail stores accounted for 96.5 percent of this income. The remaining 3.5 percent of income was generated largely through the Department's regulatory and licensing activities. Table 4.6 shows ABC's revenues, costs, and profits for fiscal years 2007 through 2010. Along with the net ABC profits, Table 4.6 also shows transfers required by the Acts of the Assembly and net profits for distribution transferred to the General Fund.

Table 4.6
Department of Alcoholic Beverage Control Components of the Enterprise Fund
Revenues, Expenses, and Disbursements, Fiscal Years 2007-2010 (\$ millions)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total Revenue*	527.1	555.0	576.0	584.7
Cost of Goods & Total Operating Expenses	432.7	451.6	464.5	464.3
Net ABC Profit	94.4	103.4	111.8	120.6
Transfer to the General Fund:				
Reimbursement for Appropriations as provided by the Acts of the Assembly	66.2	66.2	67.6	70.6
Net Profits for Distribution	28.2	37.2	44.2	49.9

*These revenue figures exclude receipts collected under the state tax on alcoholic beverages and the general sales tax.

ABC Revenues and Profit Forecast for 2011-2014

Comparisons of ABC's performance in fiscal year 2009, estimated performance for fiscal year 2010, and actual performance in fiscal year 2010, are included in Table 4.7.

Table 4.7
A Comparison of Fiscal Year 2009 Results to Fiscal Year 2010 Estimated and Actual Results, (\$ millions)

	<u>FY09 Actual</u>	<u>FY10 Estimate</u>	<u>FY10 Actual</u>	<u>\$ Var</u>	<u>% Var</u>	<u>FY09 v. FY10</u>	
						<u>Estimate</u>	<u>Actual</u>
Total Store Sales*	665.5	675.0	675.5	0.5	0.1%	9.5	10.0
Net ABC Profit for Distribution	44.2	40.5	49.9	9.4	23.2%	(3.7)	5.7
State Tax Revenue**	129.8	131.4	132.0	0.6	0.5%	1.6	2.2

*These figures include state tax on alcoholic beverages and exclude the general sales tax collected at ABC stores.

**State Tax Revenue does not include \$9.9m wine liter tax transferred to MHMRSAS.

NON-GENERAL FUND REVENUES

Fiscal year 2010 compared to 2009 shows an increase in sales, an increase in net ABC profits for distribution, and an increase in state tax revenue. Table 4.8 contains fiscal year 2010 results for store sales, profits for distribution and state tax revenues along with the 2011 through 2014 forecasts. Profit forecasts in Table 4.8 are net of any transfers mandated by the Appropriations Act.

Table 4.8
Forecast of ABC Store Sales, ABC State Tax on Alcohol,
and Net Profits for Distribution
(\$ millions)

	<u>Actual</u>	<u>Forecast</u>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total ABC Store Sales: (1)	675.5	685.0	705.6	724.6	742.4
Adjusted Net Profits for Distribution: (2) (3)	49.9	46.2	47.8	48.3	49.3
ABC State Tax Revenues:(1)					
Spirits	111.3	113.0	116.4	119.6	122.5
Wine (4)	20.7	20.7	20.7	20.7	20.7
Total Tax Revenue:	132.0	133.7	137.1	140.3	143.2

(1) Excludes the 5 percent general sales tax and lottery sales.

(2) Does not include appropriation transfers mandated by Virginia Acts of Assembly.

(3) ABC develops forecasts on an accrual basis. The transfer of profits occurs on a cash basis. Variances often occur at year end when ABC has to transfer estimated profits on June 30th.

(4) Wine figure excludes statutory transfers.

ABC's profit forecast is a factor of two elements: sales performance and trends in expenses. In both cases, forecasts beyond fiscal year 2011 are more prone to forecast error given the uncertainty with the economy and impacts on customer behavior and ABC's cost structure.

In fiscal year 2011, ABC expects sales to continue to grow, but at a much slower rate than in previous years. This is due to a slow recovery in Virginia's economy combined with a reduced growth rate in new locations during the fiscal year. Uncontrollable factors such as holiday season sales and sales from mixed beverage licensees (restaurants) have the potential to significantly impact the accuracy of ABC's sales forecast. Currently, ABC is experiencing slight growth in retail sales but a similar level of decline in restaurant sales.

On the expense side, ABC is faced with mandated salary and benefit costs, energy inflation, automatic rent escalation, telecommunication and technology costs and growth in

NON-GENERAL FUND REVENUES

credit card discount fees that are all very difficult to influence in the short run. Personnel costs account for 59% of ABC non-merchandise expenditures, 18% are for continuous charges such as rent and utilities, 11% are for contractual services such as shipping product to stores and telecommunications, and 9% are for miscellaneous expenses such as depreciation and credit card discount fees. In fiscal years 2011 and 2012, increases in expenditures are exacerbated by the need to make ongoing infrastructure improvements in order to comply with data security standards mandated by the Payment Card Industry. Changes in salary and benefit cost rates mandated by the Appropriations Act can also significantly impact the accuracy of ABC's expense forecasts.

Distribution of ABC Profits and ABC State Tax Revenues

During fiscal year 2010, ABC contributed \$120.6 million of net profits to the Commonwealth, and collected \$186.3 million of taxes on store sales, wine, beer and an additional \$26.9 million of general sales tax totaling \$333 million.

Net ABC profits are generally earmarked for deposit in the General Fund; certain appropriations have been made by the General Assembly to recover alcohol-related program costs. Such programs include the Department of Mental Health, Mental Retardation, Substance Abuse Services' programs for the treatment of alcoholics as well as testing services and the Breathalyzer Training Program. The transfers for these programs and others were \$65.4 million in fiscal year 2010. These appropriations are charged against net ABC profits before being transferred to the General Fund. The remaining ABC profits are transferred into the General Fund as ABC profits. ABC expects to meet transfer requirements in fiscal year 2011 but is lowering the fiscal year 2012 forecast. The forecast in the original budget included proceeds from a price increase that was never implemented. These projections will be reassessed during the fall 2011 forecasting process. The Appropriations Act also contains a \$1.3 million error related to statutory transfers for the Wine Board that ABC assumes will be corrected.

In any given time period, amounts transferred to the General Fund will not correspond to net ABC profit earned, due to a 50 day interval before the profits are transferred to the Fund. This issue is exacerbated at year-end when ABC must estimate fourth quarter profits and make the transfer in advance of year-end closing.

Virginia Lottery

Each fiscal year, the Lottery makes periodic transfers of net income, or sales minus expenses plus other income, to the Lottery Proceeds Fund. Expenses are comprised of prizes to players, commissions to retailers, ticket printing and distribution, computer gaming contract fees, and administrative operating costs. The primary drivers of the net income transferred are sales of lottery products and prizes paid to players.

Actual Results - Fiscal Year 2010

The Virginia Lottery transferred net proceeds of \$430.3 million to the Lottery Proceeds Fund for fiscal year 2010. The Lottery also transferred \$1.4 million for debt set-off to the Department of Taxation and \$10.3 million from unclaimed prizes to the Literary Fund.

Sales for fiscal year 2010 were \$1.4 billion, an increase of \$69.5 million (+5.1 percent) from fiscal year 2009, and \$38.8 million (+2.8 percent) more than the fiscal year 2010 forecast. Even though sales were nearly 3 percent higher than expected, net income was only \$50,000 (+0 percent) more than forecast for the fiscal year because of higher than expected prize payouts.

Forecast Overview - Fiscal Years 2011 to 2014

The Virginia Lottery developed its sales and revenue forecasts based upon a variety of baseline assumptions, including:

- the economic outlook as endorsed by the Joint Advisory Board of Economists, in particular with respect to long-term interest rates and US Treasury-issued bond yields;
- continued lottery gaming competition from North Carolina;
- no legislatively-mandated change in the overall compensation rate paid to retailers offering Lottery products;
- no new constraints on the Lottery's sales and marketing efforts, including the ability to advertise products and establish prizes paid to players; and
- no new, non-traditional product-line offerings.

Table 4.9
Forecast of Lottery Sales and Transfer to the Lottery Proceeds Fund
(in millions)

	FY2011	FY2012	FY2013	FY2014
Sales	1,448.8	1,448.8	1,448.8	1,448.8
- Prize Expense	856.9	856.9	856.9	856.9
- Retailer Compensation	81.7	81.7	81.7	81.7
- Operating Expenses	77.7	77.7	77.7	77.7
+ Other Income	2.6	2.6	2.6	2.6
Net Income	435.2	435.2	435.2	435.2
Transfer	435.2	435.2	435.2	435.2

NON-GENERAL FUND REVENUES

As shown in Table 4.9 on the preceding page, for fiscal year 2011, the Lottery is projecting sales of \$1.4 billion and net income (turnover to the Lottery Proceeds Fund) of \$435.2 million. Prize expense is estimated to be \$856.9 million, or 59.1 percent of sales; retailer compensation is forecast to be \$81.7 million, or 5.6 percent of sales. This forecast takes into account current trends and simulation models for jackpot progressions and sales, and statistically expected prize expense rates. The estimated \$435.2 million net income is the total expected transfer to the Lottery Proceeds Fund for fiscal year 2011, because there was only \$50,000 in fiscal year 2010 residual profits transferred in fiscal year 2011.

For the second year of the 2010-2012 biennium, the Lottery expects that sales and net income will remain near fiscal year 2011 levels, or \$1.4 billion in sales creating revenue for the Lottery Proceeds Fund of \$435.2 million for fiscal year 2012, and for the 2012-2014 biennium as well.

Sales Projections for Fiscal Years 2011 through 2014

For each fiscal year forecast, the Lottery total forecast is the sum of sales forecasts developed by the Lottery for each of its products. The methodology for each estimate is dependent upon the nature of the product. The data used in our models include such factors as: experiences of other U.S. and Canadian lotteries, variability of prize percentage, economic variables such as predicted interest rates, seasonal factors, promotions, product life cycle, and the Lottery's future plans for each of the products.

Scratch Games

Scratch games continue to account for half of total lottery sales. Sales of scratch games are expected to experience minimal overall growth for the current year and subsequent biennia as players continue to support the variety of games offered in Virginia. The key to the maintenance and growth of scratch sales over the forecast horizon will be actively managing our comprehensive portfolio of games at various price points and prize levels.

The Jackpot-Style Games: Mega Millions, Powerball, and Win for Life

About 16 percent of the Lottery's sales come from jackpot-style games - those games offering top prizes in the millions of dollars. The Lottery now offers three such games: Mega Millions, Powerball, and Win for Life. "Luck of the draw" plays a major role in the sales performance of Mega Millions and Powerball. Drawings of random numbers determine whether the jackpot prize is won or whether it "rolls" and continues to grow. High jackpots increase levels of play. Conversely, high frequency of jackpot winners means less jackpot growth and lower sales. Since drawings of random numbers determine the frequency of jackpot wins, which is a large determinant of sales levels for these games, there is inherently a large degree of uncertainty in any forecast for these large jackpot games.

Another key determinant of sales levels for these games is the prevailing interest rate. The Lottery invests the prize pool for each jackpot prize in U.S. Treasury Bonds to create the necessary income stream. At a given level of sales and resulting cash pool, the higher the yield of the bonds, the higher an annuity jackpot prize may be advertised. Higher advertised jackpots lead to higher sales. Thus in periods of high interest rates, jackpots grow relatively quickly and sales are stable. In periods of low interest rates, jackpots grow slowly and sales decline. Current bond yields continue to be very low.

Win for Life, the other jackpot-style game offered in Virginia, offers a fixed prize to players without regard to the number of winners resulting from any single drawing. The grand prize is a fixed weekly payment to a winner for the remainder of the winner's natural life. This prize has been highly appealing to players when offered on a scratch ticket; offering the prize as a guaranteed prize for a bi-weekly drawing game also appealed to players during qualitative testing. Since the game's inception in March 2006, it has become clear that player awareness of this game offering is key to its success. In addition, plans for a companion multi-state offering – Decades of Dollars – to begin in February are underway. This is not expected to be a major offering, and instead will help stem the decline in Win for Life sales. Sales and profits for this new offering are included in the current revenue estimates.

Escalating efforts to expand multi-state jackpot game offerings among all U.S. Lottery states have led to recent breakthrough agreements between the two major consortia – Mega Millions and Powerball – that may lead to further product offerings with a national jackpot. Because there are so many states involved in these types of national agreements, these initiatives have experienced many delays and setbacks over the years, and there are no anticipated revenues in the current forecast for any of these potential future products. If such products become available for sale in Virginia, a forecast adjustment will be made at that time.

Daily Games

The Lottery's other drawing games – those games sold through the network of Lottery computer terminals and where winners are determined by a random drawing – collectively referred to as “daily games,” are Pick 3, Pick 4 and Cash 5. Daily games comprise about a third of total Lottery sales. Each of these products operates on approximately the same profit margin. While Pick 3 and Pick 4 are very mature products, sales are forecast to continue increasing slightly. Some play is expected to continue to shift from Pick 3 to Pick 4 over time. Cash 5 is expected to continue to exhibit stable to slightly declining sales, an unusual phenomenon and contrary to the experiences of other U.S. lotteries that have seen their Cash 5 sales decline more significantly.

Other Products

Since fiscal year 2007, the Lottery has offered two new products to players: the limited-time offering of raffle tickets, and a new line of “fast play” style games. Raffle style games offer a fixed number of tickets for sale, and each ticket has an equal chance to win predetermined prizes. Fast play style games are offered for sale through retailer terminals, and offer an instant-win experience for consumers.

NON-GENERAL FUND REVENUES

Net Income for Fiscal Years 2011 through 2014

The Lottery is forecasting net income of \$435.2 million for fiscal years 2011 and 2012, as well as each year in the subsequent 2012-2014 biennium. The Lottery's largest expense, prizes to players, is expected to increase slightly over this period as players continue to buy more of the higher price point scratch games, which pay a higher portion of sales back in prizes. Retailers should continue to earn commissions and incentives equal to about 5.6 percent - 5.7 percent of sales. Operating expenses are projected to remain low, forecast to stabilize around 5.5 percent - 6.0 percent of total sales.

The Virginia Lottery, celebrating its 22nd year in fiscal year 2011, with its current product mix, has reached a mature stage. Virginia continues to support sustaining sales and net income through innovations in existing products, ongoing operating efficiencies, retailer recruitment and expansion initiatives, and crucial marketing endeavors.

Ongoing Risks to the Forecast

There are always a number of ongoing risks associated with the Virginia Lottery's forecast. Since the basis of many of the Lottery's products is a random drawing, in the relatively short period of one year, a wide range of outcomes can occur. If the Lottery experiences unusually high payouts in its daily games in any given year, sales may be higher than projected, but income lower simply due to players winning more money.

A second risk is competition along Virginia's borders. North Carolina, as it further develops its lottery operation, may launch product offerings not available in Virginia. Specifically, the offering of internet gaming, video lottery, or other non-traditional products in North Carolina could cause a more significant decline in Virginia lottery revenues. Increased competition from video lottery offerings in Maryland, which began in 2010, may have an increasingly negative impact on traditional lottery product sales in Virginia. This increase in competition for gaming dollars along the heavily populated northern Virginia border is in addition to the well established competition from video lottery and table games offerings in West Virginia.

A third risk is the prospect of the Lottery being constrained even further in its ability to launch, promote, and support products. For example, if the advertising budget were reduced to sub-optimal levels, sales would suffer. It is likely that some products will need to be repositioned or relaunched in the marketplace. Advertising funds are necessary to ensure this is effective.

Unemployment Insurance Trust Fund

The current unemployment benefit financing system, put in place in 1981, calculates an employer's tax liability by computing the ratio of benefit charges to taxable wages for the last four fiscal years. An appropriate tax rate, subject to a maximum and minimum, is then assigned based on the employer's benefit ratio. A determining factor of tax schedules is the fund balance factor—a ratio related to the Trust Fund's solvency level. Generally, a lower fund balance factor means higher tax schedules.

The Unemployment Insurance (UI) Trust Fund also may receive tax revenues from two other sources—the pool tax and the fund-building tax. The pool tax is an additive tax imposed on all employers to cover those benefits that cannot be charged to a particular employer because the employer is inactive or the employer is already subject to the maximum tax. When the fund balance factor exceeds 50 percent, interest income is used to offset these benefit charges. The fund-building tax of 0.2 percent is added to each employer's tax rate unless the fund balance factor exceeds 50 percent. Higher-than-expected unemployment caused UI tax collections to fall below the projection by \$45.4 million, or 9.0 percent, in fiscal year 2010. Because the Trust Fund was depleted at a slightly later date than anticipated, interest revenues were above the projection by \$0.6 million, or 21.4 percent.

Discussion of the Forecast

The estimates in Tables 4.10 and 4.11 on the following page represent projections from the Unemployment Insurance Benefit Financing Model. The current estimates' increase in tax revenue in fiscal years 2010—2012 reflects increases in the four year moving average of benefit charges and in the pool tax rate and a decrease in the Fund Balance Factor. In the Baseline Scenario, pool taxes of 0.48 percent, 0.61 percent, 0.49 percent, and 0.34 percent are projected for Calendar Years 2011—2014 respectively. A fund-building tax is imposed in Calendar Years 2011—2014. With outstanding loans for much of the forecast period, interest revenues is zero until the third quarter of Calendar Year 2012.

In the pessimistic alternative scenario, pool taxes of 0.48 percent, 0.83 percent, 0.93 percent, and 0.72 percent are projected for calendar years 2011—2014 respectively. A fund-building tax is imposed in calendar years 2011—2014. Tax revenues are lower in 2011 in the alternative scenario because employment is lower. Due to higher benefit payments in the alternative scenario, average benefit ratios are higher for fiscal years 2011 through 2013. This, combined with the higher pool tax rates, produces higher tax revenue than the baseline scenario for fiscal years 2012 through 2014. The alternative scenario produces zero interest revenue over the forecast period as there are outstanding loans through fiscal year 2014.

NON-GENERAL FUND REVENUES

TABLE 4.10
Financial Forecasts Fiscal Years 2011, 2012, 2013, and 2014
Baseline Scenario (Global Insight STANDARD)
(Millions of Dollars)

Revenue Source	Fiscal Year 2011		Fiscal Year 2012		Fiscal Year 2013		Fiscal Year 2014	
	Standard Estimate	% Change From Actual Fiscal Year 2010	Standard Estimate	% Change From Estimated Fiscal Year 2011	Standard Estimate	% Change From Estimated Fiscal Year 2012	Standard Estimate	% Change From Estimated Fiscal Year 2013
Unemployment Insurance Tax	672.6	46.1%	776.8	15.5%	820.8	5.7%	767.6	-6.5%
Interest on Trust Fund	-	-100.0%	-	N/A	4.7	N/A	19.1	306.4%
Total Revenue	672.6	45.1%	776.8	15.5%	825.5	6.3%	786.7	-4.7%

TABLE 4.11
Financial Forecasts Fiscal Years 2011, 2012, 2013, and 2014
Pessimistic Alternate Scenario (Global Insight DOUBLE-DIP RECESSION)
(Millions of Dollars)

Revenue Source	Fiscal Year 2011		Fiscal Year 2012		Fiscal Year 2013		Fiscal Year 2014	
	Standard Estimate	% Change From Actual Fiscal Year 2010	Standard Estimate	% Change From Estimated Fiscal Year 2011	Standard Estimate	% Change From Estimated Fiscal Year 2012	Standard Estimate	% Change From Estimated Fiscal Year 2013
Unemployment Insurance Tax	670.0	46.1%	808.9	20.7%	958.5	18.5%	977.4	2.0%
Interest on Trust Fund	-	-100.0%	-	N/A	-	N/A	-	N/A
Total Revenue	670.0	44.5%	808.9	20.7%	958.5	18.5%	977.4	2.0%