



The Economic Outlook And Revenue Forecast Through Fiscal Year 2010

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

November 20, 2006

**Timothy M. Kaine
Governor**

**Jody M. Wagner
Secretary of Finance**

**Janie E. Bowen
Tax Commissioner**

GOVERNOR'S CONFIDENTIAL WORKING PAPERS

Table of Contents

List of Tables:		ii
List of Figures:		v
Introduction:		vii
Section 1:	The U.S. Economy	1-1
Section 2:	The Virginia Economy	2-1
Section 3:	General Fund Revenues	3-1
Section 4:	Non-General Fund Revenues	4-1
Appendix A:	Economic Data	A-1
Appendix B:	General Fund Data	B-1
Appendix C:	Models and Methodologies	C-1

List of Tables

Table 1.1	Fiscal Year 2006 U.S. Forecast Performance	1-3
Table 1.2	Fiscal Years 2005-2010 October & Official U.S. Forecasts (Income and Other Indicators)	1-6
Table 1.3	Fiscal Years 2005-2010 October & Official U.S. Forecasts (Employment and Labor Markets)	1-7
Table 1.4	Comparison of Fiscal Years 2005-2010 U.S. October and Alternative Forecasts (Income and Other Indicators)	1-10
Table 1.5	Comparison of Fiscal Years 2005-2010 U.S. October and Alternative Forecasts (Employment and Labor Markets)	1-11
Table 2.1	Fiscal Year 2006 Virginia Forecast Performance	2-2
Table 2.2	Fiscal Years 2005-2010 October & Official Virginia Forecasts (Employment and Labor Markets)	2-9
Table 2.3	Fiscal Years 2005-2010 October & Official Virginia Forecasts (Income and Other Indicators)	2-10
Table 2.4	Comparison of Fiscal Years 2005-2010 Virginia October and Alternative Forecasts (Employment and Labor Markets)	2-13
Table 2.5	Comparison of Fiscal Years 2005-2010 Virginia October and Alternative Forecasts (Income and Other Indicators)	2-14
Table 3.1	Fiscal Year 2006 General Fund Collections: Actual and Forecast	3-2
Table 3.2	Actual Collections Over (Under) the Forecast Percent Variance	3-3
Table 3.3	General Fund Interest Income: A Comparison of Actual Collections for Fiscal Years 2005 and 2006	3-7

List of Tables (continued)

Table 3.4	General Fund Interest Income: A Comparison of Official Forecast to Actual Collections — Fiscal Year 2006	3-7
Table 3.5	The Official and November Standard General Fund Forecast for Fiscal Years 2007-2010	3-9
Table 3.6	Interest Revenue Forecast -- Treasury	3-16
Table 3.7	Summary of Recent Legislation Affecting General Fund Revenues	3-17
Table 3.8	The Official and November Low Growth General Fund Forecast for Fiscal Years 2007-2010	3-18
Table 4.1	Commonwealth Transportation Revenues, Actual Collections Compared to the Official Forecast for Fiscal Year 2006	4-2
Table 4.2	Motor Fuel Consumption, History and Forecast, Fiscal Years 2006-2010	4-5
Table 4.3	Virginia Vehicle Market, History and Forecast, Fiscal Years 2006-2010	4-6
Table 4.4	The Official and November Standard Commonwealth Transportation Fund Forecast for Fiscal Years 2007-2010	4-9
Table 4.5	The Official and November Low Growth Commonwealth Transportation Fund Forecast for Fiscal Years 2007-2010	4-14
Table 4.6	Department of Alcoholic Beverage Control Components of the Enterprise Fund — Revenues, Expenses, Disbursements, Fiscal Years 2002 -2006	4-18
Table 4.7	A Comparison of Fiscal Year 2005 Results to Fiscal Year 2006, Estimated and Actual Results	4-18

List of Tables (continued)

Table 4.8	Forecast of ABC Store Sales, ABC State Tax on Alcohol, and Net Profit for Distribution	4-19
Table 4.9	Forecast of Lottery Sales and Transfer to the Lottery Proceeds Fund	4-21
Table 4.10	Financial Forecasts Fiscal Years 2007-2010 Baseline Scenario (Global Insight Standard)	4-25
Table 4.11	Financial Forecasts Fiscal Years 2007-2010 Alternate Scenario (Global Insight Low Growth)	4-25

List of Figures

Figure 2.1	Virginia Job Gains/Losses by Sector, Fiscal Years 2005 and 2006	2-3
Figure 2.2	U.S. and Virginia Employment Growth History and Forecast — Fiscal Years 1992-2010	2-6
Figure 2.3	U.S. and Virginia Personal Income Growth History and Forecast — Fiscal Years 1992-2010	2-7
Figure 2.4	Virginia Employment Growth FY 1996-06 Actual and FY 2007-10 Forecast	2-7
Figure 2.5	Virginia Personal Income Growth FY 1996-06 Actual and FY 2007-10 Forecast	2-8
Figure 2.6	Virginia Wages and Salaries Growth FY 1996-06 Actual and FY 2007-10 Forecast	2-8
Figure 2.7	Pending Home Sales in Northern Virginia, Hampton Roads, and Richmond	2-11
Figure 3.1	Net Individual Income Tax, Fiscal Year Growth	3-4
Figure 3.2	Withholding Tax, Fiscal Year Growth	3-4
Figure 3.3	Tax Dues and Estimated Payments, Fiscal Year Growth	3-4
Figure 3.4	Sales Tax, Fiscal Year Growth	3-5
Figure 3.5	Corporate Income Tax, Fiscal Year Growth	3-5
Figure 3.6	Wills, Suits, Deeds, and Contract Fees, Fiscal Year Growth	3-6
Figure 3.7	Insurance Premiums Tax, Fiscal Year Growth	3-6
Figure 3.9	Virginia Personal Income and Net Individual Income Tax History and Forecast — Fiscal Years 1992-2008	3-13

List of Figures (continued)

Figure 4.1	Growth in Gasoline Average Price and Consumption	4-4
Figure 4.2	U.S. and Virginia Light Vehicle Sales History and Forecast — Fiscal Years 2002-2010	4-7

Introduction

At their October 18, 2006 meeting, the Governor's Advisory Board of Economists (GABE) reviewed the U.S. and Virginia forecasts based on Global Insight's September standard U.S. economic forecast. A majority of the Board members were in favor of the Standard U.S. and Virginia economic forecasts, with more members suggesting slight downward revisions than members who felt the standard forecast should be adjusted slightly higher. The key risks mentioned most frequently were a more severe downturn in housing and energy supply shocks.

The November standard forecast raises total general fund projections by \$315.3 million in fiscal year 2007 and \$188.7 million in fiscal year 2008. Most of the upward revision over the forecast horizon can be attributed to two of Virginia's most volatile sources: corporate income taxes and nonwithholding. Besides their inherent volatility, these sources are highly influenced by exogenous factors such as corporate money management on a national scale, the stock market, and stockholder behavior.

Section 1 of this book contains a review of the national economic performance during fiscal year 2006. A summary of Global Insight's standard October national outlook is presented along with their alternative low-growth forecast.

Section 2 contains a review of Virginia's economic performance during fiscal year 2006. This is followed by a summary of the standard forecast developed by the Department of Taxation using the Global Insight standard October national forecast. The section closes with discussions of the alternative forecast of the Virginia economy based on Global Insight's alternative low-growth scenario.

Section 3 addresses fiscal year 2006 collections of general fund revenues and the November forecasts based on the standard and alternative economic forecasts. Section 4 discusses 2006 collections and revenue forecasts for the nongeneral fund.

Historical and forecast economic data are contained in Appendix A. Historical general fund revenue data are contained in Appendix B. Models and methodologies are contained in Appendix C.

SECTION 1
THE U.S. ECONOMY

Section 1 The U.S. Economy

Introduction

This section summarizes the national economic outlook prepared by Global Insight. The section begins with a review of economic activity in fiscal year 2006 compared with the official forecast, the October 2005 standard forecast provided by Global Insight. Following this review, the economic outlook for fiscal years 2007 through 2010 is examined. The two national economic forecasts for consideration are the October 2006 standard forecast of Global Insight and its alternative low-growth forecast.

Graphic and tabular data are presented throughout this section as needed. More detailed tabular data are contained in the appendices. Appendix A-1 shows quarterly historical data for major forecast variables from fiscal year 2004 through fiscal year 2006. Quarterly data through fiscal year 2010 for the two forecasts are contained in Appendix A-2. Appendix A-3 displays annual historical and forecast data from fiscal year 2001 through fiscal year 2010.

Review of Fiscal Year 2006

The national economy experienced healthy growth in fiscal year 2006, with most measures at or exceeding expectations for the year. Consumer spending remained solid despite deteriorating conditions in the housing market, in part due to strong income growth. Strength in consumer demand encouraged businesses to expand both capital investment and payrolls, leading to a continued expansion in the labor market. Despite these positives, global uncertainty, including ongoing military operations and their impact on federal budget deficits, as well as escalating energy costs and the cooling housing market, continued to be a source of caution for investors.

As Global Insight prepared its October 2005 U.S. forecast, the national economy was weathering the impact of Hurricanes Katrina and Rita. Economic indicators were mixed, with gains in consumer spending and the real estate market offset by regional employment losses and increases in energy costs and inflation. Most analysts expected that weaker growth in the fourth quarter of 2005 would give way to faster growth in the first half of 2006. Overall, expectations were for a generally slower pace of economic growth as consumer spending and the housing market cooled.

U.S. ECONOMY

Real GDP increased 3.3 percent in the second quarter of 2005, following growth of 3.8 percent in the first quarter. Major contributors to growth were the booming housing market and business investment in equipment and software. Growth in personal consumption expenditures led overall growth slightly. Corporate profits rose, but at a slower pace for the second consecutive quarter.

The labor market experienced a hurricane-induced decline in September. Payroll employment declined by 35,000 jobs, smaller than was expected. This was down from an average gain in the prior three months of 220,000. In September, the unemployment rate rose from 4.9 percent to 5.1 percent.

Personal income fell 0.1 percent in August, due to weak wage growth and the negative effects of Hurricane Katrina on the income data. The largest component of personal income, wages and salaries, increased only 0.2 percent, one-half the rate experienced in the prior three months. Consumer confidence declined sharply in September, driven by a surge in energy prices and the psychological fallout from the hurricanes.

Financial markets continued to reflect wavering investor sentiment. As of the end of October, the S&P 500 index was down slightly for the year. Inflation increased sharply, driven by double-digit increases in energy prices. At its first post-Katrina meeting, the Federal Reserve raised the federal funds rate another 25 basis points to 3.75 percent, saying that the economic disruption from the storm did not pose a persistent risk to growth.

Following is a summary of key assumptions included in Global Insight's October 2005 standard forecast and commentary on how those assumptions fared during the past year. Table 1.1 depicts the actual performance of the economy compared with the forecast for fiscal year 2006.

- Global Insight expected solid economic growth in fiscal year 2006. Real GDP growth of 3.4 percent for the year matched the forecast.
- The 1.5 percent increase in total nonagricultural employment mirrored the Global Insight forecast. Five out of ten employment sectors experienced growth greater than forecast. Major drivers were construction, professional and business services, and education and health services. Growth in financial activities employment exceeded the forecast by 0.9 percentage point due to the continued strength in the housing market.
- Total personal income growth in fiscal year 2006 was 0.1 percentage point ahead of Global Insight's estimate of 5.8 percent. Reflecting the gains in the job market and higher wage increases, wages and salaries grew a robust 6.6 percent, well ahead of the forecast of a 5.7 percent annual increase.

Table 1.1 - Fiscal Year 2006 U.S. Forecast Performance

	<u>Actual</u>	<u>Forecast</u>	<u>Actual Minus Forecast</u>
<u>Output, Income and Spending (% Change)</u>			
GDP	6.7	6.3	0.4
Real GDP	3.4	3.4	0.0
Total Personal Income	5.9	5.8	0.1
Wages and Salaries (56%)*	6.6	5.7	0.9
Average Wage (Nonag. Employ.)	5.0	4.1	0.9
Real Consumer Spending	3.3	2.8	0.5
<u>Employment and Labor Markets (% Change)</u>			
Total Nonagricultural Employment	1.5	1.5	0.0
Manufacturing (11%)*	(0.5)	(0.6)	0.1
Construction (6%)	4.1	3.4	0.7
Trade, Transportation, and Utilities (19%)	1.1	1.3	(0.2)
Information (2%)	(0.5)	0.6	(1.1)
Financial Activities (6%)	2.0	1.1	0.9
Professional and Business Services (13%)	2.8	3.2	(0.4)
Education and Health Services (13%)	2.3	2.2	0.1
Leisure and Hospitality (10%)	2.1	2.0	0.1
Other Services (4%)	(0.1)	0.7	(0.8)
Government (16%)	0.8	0.9	(0.1)
Unemployment Rate (%)	4.8	5.0	(0.2)
<u>Prices (% Change)</u>			
CPI	3.8	3.8	0.0
GDP Deflator	3.1	2.8	0.3
<u>Interest Rates (%)</u>			
3-Month Treasury Bills	4.1	4.0	0.1
30-Year Treasury Bonds	4.7	4.9	(0.2)

The forecast data are taken from the October 2005 U.S. forecast developed by Global Insight.

* Represents the sector's percentage share of total.

U.S. ECONOMY

- Stronger wage growth and the continued gains in housing were a positive for consumers. Real consumer spending grew 3.3 percent in fiscal year 2006, one-half a percentage point ahead of the forecast of 2.8 percent growth.
- Global Insight expected inflation to pick up over the year. The actual increase in the CPI of 3.8 percent mirrored expectations, while the GDP deflator increased 3.1 percent -- 0.3 percentage point higher than the predicted growth rate of 2.8 percent.
- Global Insight expected that the Fed would continue to tighten monetary policy throughout the fiscal year. The federal funds rate target was increased 0.25 percentage points in June to 5.25 percent, the 17th consecutive rate increase.

In summary, Global Insight anticipated a solid expansion in fiscal year 2006, with weak growth in the second quarter of the year offset by more rapid growth in the third quarter, expectations that materialized. The labor market continued to post moderate gains, contributing positively to wages and salaries growth and ultimately consumer spending.

Recent Developments in the U.S. Economy

Most recent indicators suggest that the national economy as whole remains on solid footing. On the positive side, nonfarm payrolls increased 128,000 per month over the summer, with solid gains in average hourly earnings. Consumer spending continued at a healthy pace despite high energy costs and expanding debt burdens. On the negative side, housing continued to slide, with declines in unit volume joined by a softening in home prices. Consumer and business confidence remained uneven, bringing caution to financial markets.

As expected, national economic growth has slowed from that seen in the first half of the year. Real GDP grew just 1.6 percent in the third quarter, substantially weaker than second quarter growth of 2.6 percent. The drags on growth were stronger imports, weaker inventory investment, a further decline in residential building, and slower growth in consumer spending and state and local government spending. On the positive side, investment in equipment and software and durable goods increased, while federal government spending was stronger.

Recent labor market indicators are mixed, but suggest that economic growth has slowed. Payroll employment rose by only 51,000 jobs in September. This followed gains of 123,000 in July and 188,000 in August, for an average of 120,000 jobs per month. In September, losses in manufacturing, retail, and government accounted for the weakness, along with slower growth in expanding sectors. Health care, financial services, and professional and business services continued to post solid growth.

In a separate report, the unemployment rate was essentially unchanged at 4.6 percent in September. So far this year, the jobless rate has stayed in the range of 4.6 to 4.8 percent. Initial jobless claims for the third week of October rose by 8,000 to 308,000, consistent with a healthy labor market. The four-week average fell to 305,000, its lowest level since March.

Personal income rose 0.5 percent in July, with the largest component -- wages and salaries -- growing 0.6 percent. Personal consumption rose 0.8 percent in July, the largest increase since January. With consumption growth outpacing income gains, the savings rate fell to -0.9 percent -- equal to the second lowest rate on record.

The manufacturing sector continues to expand, though growth has been uneven in recent months. The Institute of Supply Management index declined to 52.9 in September, however, the indices for production and new orders remained in expansionary territory. The sector has lost jobs in two out of the last four months.

Inflation remains contained. The consumer price index fell 0.5 percent in September, driven by a substantial drop in energy prices. Core inflation, excluding food and energy prices, rose 0.2 percent in September for the third consecutive month. This is down from the 0.3 percent monthly increases seen in the spring and early summer. The decline in oil prices and slower overall growth should alleviate inflationary pressures in the coming months.

Acting in line with market expectations, the Federal Reserve left the federal funds rate unchanged at 5.25 percent at its October meeting. This marked the third meeting in a row with no change, following 17 consecutive rate increases dating back to June 2004. The committee retained its tightening bias, referring to "additional firming that may be needed."

In summary, most recent indicators suggest that growth in the national economy is moderating, with the slowdown in housing constraining growth below potential. Employment has continued to post monthly increases, though the trend appears to be towards slower growth. Consumer spending has continued at a healthy pace despite high energy costs and expanding debt burdens. Business investment continues to be a bright spot, while unease among investors has prevented a sustained rally in financial markets.

The Global Insight U.S. Standard Forecast

Global Insight's October forecast anticipates that the flagging housing market will drag the U.S. economy into an extended period of below-trend growth, while the recent drop in oil prices has reduced the risk of a downturn. Tables 1.2 and 1.3 on the following pages compare Global Insight's current October 2006 standard forecast to its October 2005 standard forecast, on which Virginia's official economic and revenue forecasts were based.

U.S. ECONOMY

**Table 1.2 - Fiscal Years 2005-2010 October & Official
U.S. Economic Forecasts - Income and Other Indicators**

		<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
<u>Output, Income and Spending (% Change)</u>							
GDP	-October Std.	6.4	6.7	5.1	4.8	5.6	5.1
	-Official	6.5	6.3	5.3	5.6	5.4	5.1
Real GDP	-October Std.	3.3	3.4	2.6	2.7	3.5	3.2
	-Official	3.7	3.4	3.1	3.4	3.2	2.8
Total Personal Income	-October Std.	6.1	5.9	6.4	5.2	6.0	5.9
	-Official	6.4	5.8	6.4	5.8	5.8	5.5
Wages and Salaries (56%)*	-October Std.	5.3	6.6	6.2	4.6	5.5	5.5
	-Official	6.8	5.7	6.0	5.8	5.6	5.1
Average Wage (Nonag. Employ.)	-October Std.	3.8	5.0	5.0	3.4	3.9	4.0
	-Official	5.1	4.1	4.5	4.5	4.5	4.3
Real Consumer Spending	-October Std.	3.7	3.3	3.0	2.8	3.3	3.4
	-Official	3.7	2.8	3.4	3.2	3.2	2.9
<u>Interest Rates (%)</u>							
3-Month Treasury Bills	-October Std.	2.2	4.1	4.8	4.4	4.5	4.6
	-Official	2.2	4.0	4.4	4.6	4.8	4.9
30-Year Treasury Bonds	-October Std.	4.8	4.7	4.8	4.8	5.5	5.7
	-Official	4.8	4.9	5.3	5.6	5.8	6.1
<u>Prices (% Change)</u>							
CPI	-October Std.	3.0	3.8	2.4	2.2	1.8	1.8
	-Official	3.0	3.8	1.5	1.6	2.0	2.1
GDP Deflator	-October Std.	3.0	3.1	2.5	2.0	2.0	1.9
	-Official	2.7	2.8	2.1	2.0	2.2	2.2

The October Std. forecast is Global Insight's October 2006 U.S. standard forecast.

The Official forecast is Global Insight's October 2005 U.S. standard forecast.

* Represents the sector's percentage share of total.

**Table 1.3 - Fiscal Years 2005-2010 October & Official
U.S. Economic Forecasts - Employment and Labor Markets**

		<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
<u>Employment and Labor Markets (% Change)</u>							
Total Nonagricultural Employment	-October Std.	1.5	1.5	1.2	1.2	1.6	1.4
	-Official	1.6	1.5	1.4	1.3	1.1	0.7
Manufacturing (11%)*	-October Std.	(0.2)	(0.5)	(0.2)	(0.4)	(1.0)	(0.2)
	-Official	0.0	(0.6)	(1.4)	(0.5)	(0.3)	(0.4)
Construction (6%)	-October Std.	4.2	4.1	0.4	(1.7)	1.3	2.5
	-Official	3.8	3.4	0.5	2.1	0.6	0.5
Trade, Transportation, and Utilities (19%)	-October Std.	1.4	1.1	0.5	1.5	1.7	0.8
	-Official	1.2	1.3	1.7	1.3	0.7	0.3
Information (2%)	-October Std.	(2.1)	(0.5)	(0.2)	(0.9)	2.0	0.7
	-Official	(0.5)	0.6	2.1	1.6	1.6	1.9
Financial Activities (6%)	-October Std.	0.9	2.0	1.3	0.3	1.0	1.7
	-Official	1.6	1.1	(0.5)	0.8	0.9	1.1
Professional and Business Services (13%)	-October Std.	3.0	2.8	2.5	3.3	4.9	3.4
	-Official	3.2	3.2	3.4	4.0	3.4	2.0
Education and Health Services (13%)	-October Std.	2.3	2.3	2.2	1.4	1.7	1.0
	-Official	2.3	2.2	1.9	1.4	1.1	0.3
Leisure and Hospitality (10%)	-October Std.	2.6	2.1	2.2	2.7	1.3	1.9
	-Official	2.3	2.0	2.2	0.7	1.5	0.8
Other Services (4%)	-October Std.	(0.2)	(0.1)	0.7	1.0	0.0	0.1
	-Official	0.8	0.7	1.4	1.4	1.5	1.4
Government (16%)	-October Std.	0.7	0.8	0.8	0.5	1.5	1.7
	-Official	0.6	0.9	1.1	0.5	0.4	0.8
Unemployment Rate (%)	-October Std.	5.3	4.8	4.8	5.0	4.8	4.6
	-Official	5.3	5.0	4.9	4.9	4.8	4.8

The October Std. forecast is Global Insight's October 2006 U.S. standard forecast.

The Official forecast is Global Insight's October 2005 U.S. standard forecast.

* Represents the sector's percentage share of total.

U.S. ECONOMY

Projected growth is weaker than that contained in the official outlook for the next two fiscal years. Real GDP is anticipated to grow 2.6 percent in fiscal year 2007 and 2.7 percent in fiscal year 2008. The slower growth will be driven by the downturn in housing activity and a more cautious consumer, with positive contributions from business capital spending and exports. Employment growth in fiscal years 2007 and 2008 is projected to be 1.2 percent, down from the 1.5 percent growth experienced in fiscal year 2006.

Total personal income is estimated to increase 6.4 percent in fiscal year 2007, followed by 5.2 percent growth in fiscal year 2008. Growth in wages and salaries, the largest component of personal income, is expected to be 6.2 percent in fiscal year 2007, then slow to 4.6 percent in fiscal year 2008.

Consumers have remained the key force of the economy over the last year, with spending supported by solid wage gains and increasing home prices. Global Insight expects that the slowdown in the housing market and expanding debt burdens will force consumers to rein in spending. On the bright side, falling oil prices will strengthen spending power. Real consumer spending is expected to grow by 3.0 percent in fiscal year 2007 and 2.8 percent in fiscal year 2008.

Business investment, along with exports, is expected to support the economy in the face of a downturn in housing and a modest retreat in consumer spending. Healthy corporate balance sheets are expected to fuel increases in business equipment spending. Growth is expected to be centered in information processing equipment, specifically computers and peripherals, as companies work to maximize productivity.

Global Insight expects that the Federal Reserve will hold the federal funds rate steady at 5.25 percent for the rest of the year, followed by a cut in rates in March of next year to counter slower growth, with two more rate cuts over the year. Inflation is expected to stabilize over the next two fiscal years, with growth below two percent over the forecast horizon.

The slowdown in housing is the number one risk to the national economy. While weakening has been expected, recent data point to a much more pronounced downturn. Declining volumes have recently been joined by regional price declines. The slower growth will be a negative for employment in real estate-related industries and require a reevaluation of household balance sheets. Consumer spending should slow to a rate more consistent with income growth. In addition, many of the creative mortgages originated over the last few years to accommodate escalating prices are due to reset at higher interest rates. Individuals who have been paying a low introductory rate will be faced with dramatic increases in monthly payments. Expectations are for a large increase in defaults on home mortgages, with rising foreclosures exacerbating the slowdown in housing.

Lower energy prices should cushion the effects of the downturn in the housing market. Any geopolitical event that may result in a spike in oil prices would be a significant risk to the forecast.

The Global Insight U.S. Alternative Low-Growth Forecast

In the standard forecast, Global Insight expects slowing growth, but a healthy economy. In the alternative low-growth outlook, the economy nearly sinks into recession. Tables 1.4 and 1.5 on the following pages compare the October 2006 Global Insight standard forecast with the alternative forecast -- the October 2006 Global Insight low-growth forecast.

In this alternative scenario, core inflation continues to gather momentum, with consumer prices increasing about three percent per year over the forecast horizon. The Federal Reserve responds with more aggressive tightening, while financial markets slide on fears that inflation has grown beyond control. Combined with inflationary pressures, the housing market experiences a deeper downturn, with prices retreating eight percent below the baseline by late 2007. Consumers rein in discretionary spending in the face of higher interest rates and persistently high energy prices. The resulting sluggish growth in demand discourages hiring, causing unemployment to rise, and puts a damper on growth in wages and salaries. The Federal Reserve is faced with the conflicting decisions of fighting inflationary pressures and promoting economic growth. Monetary policy is tightened more aggressively, with the federal funds rate at 7.75 percent by early 2008. This low-growth scenario has a 25 percent probability of occurring.

In the Global Insight alternative low-growth scenario, real GDP growth is expected to be 2.1 percent in fiscal year 2007, with a slowdown to 0.9 percent growth in fiscal year 2008. Global Insight anticipates that growth in total nonagricultural employment will be 1.0 percent in fiscal year 2007, with an unemployment rate of 5.0 percent. Minimal job growth is projected for fiscal year 2008, with a 0.2 percent increase. The weak gains in payrolls drive the unemployment rate up to 5.8 percent by fiscal year 2008.

Growth in total personal income over the forecast horizon is expected to be about the same as the standard Global Insight forecast, with weaker growth in wages and salaries offset by stronger growth in transfer payments. Total personal income is expected to increase 6.5 percent in fiscal year 2007 and 4.9 percent in fiscal year 2008. Growth in wages and salaries is expected to weaken as the labor market slows. Global Insight projects a 6.1 percent increase in fiscal year 2007, followed by 3.7 percent growth in fiscal year 2008, nearly a full percentage point lower than the standard forecast. Consumer spending is expected to slow over the next two years, with growth of 2.6 percent in fiscal year 2007 and 0.9 percent in fiscal year 2008.

U.S. ECONOMY

**Table 1.4 - Fiscal Years 2005-2010 October & Alternative Forecast
U.S. Economic Forecasts - Income and Other Indicators**

		<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
<u>Output, Income and Spending (% Change)</u>							
GDP	-October Std.	6.4	6.7	5.1	4.8	5.6	5.1
	-Alt. Low	6.4	6.7	4.7	3.6	5.9	6.5
Real GDP	-October Std.	3.3	3.4	2.6	2.7	3.5	3.2
	-Alt. Low	3.3	3.4	2.1	0.9	2.7	3.0
Total Personal Income	-October Std.	6.1	5.9	6.4	5.2	6.0	5.9
	-Alt. Low	6.1	5.9	6.5	4.9	5.9	7.1
Wages and Salaries (56%)*	-October Std.	5.3	6.6	6.2	4.6	5.5	5.5
	-Alt. Low	5.3	6.6	6.1	3.7	4.9	6.0
Average Wage (Nonag. Employ.)	-October Std.	3.8	5.0	5.0	3.4	3.9	4.0
	-Alt. Low	3.8	5.0	5.1	3.5	3.9	4.3
Real Consumer Spending	-October Std.	3.7	3.3	3.0	2.8	3.3	3.4
	-Alt. Low	3.7	3.3	2.6	0.9	1.6	2.8
<u>Interest Rates (%)</u>							
3-Month Treasury Bills	-October Std.	2.2	4.1	4.8	4.4	4.5	4.6
	-Alt. Low	2.2	4.1	5.4	7.1	6.3	5.7
30-Year Treasury Bonds	-October Std.	4.8	4.7	4.8	4.8	5.5	5.7
	-Alt. Low	4.8	4.7	5.3	6.4	6.5	6.6
<u>Prices (% Change)</u>							
CPI	-October Std.	3.0	3.8	2.4	2.2	1.8	1.8
	-Alt. Low	3.0	3.8	2.9	3.2	2.9	2.9
GDP Deflator	-October Std.	3.0	3.1	2.5	2.0	2.0	1.9
	-Alt. Low	3.0	3.1	2.5	2.7	3.1	3.4

The October Std. forecast is Global Insight's October 2006 U.S. standard forecast.

The Alt Low forecast is Global Insight's October 2006 U.S. Alternative Low Growth forecast.

* Represents the sector's percentage share of total.

**Table 1.5 - Fiscal Years 2005-2010 October & Alternative Forecast
U.S. Economic Forecasts - Employment and Labor Markets**

		<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
<u>Employment and Labor Markets (% Change)</u>							
Total Nonagricultural Employment	-October Std.	1.5	1.5	1.2	1.2	1.6	1.4
	-Alt. Low	1.5	1.5	1.0	0.2	1.0	1.6
Manufacturing (11%)*	-October Std.	(0.2)	(0.5)	(0.2)	(0.4)	(1.0)	(0.2)
	-Alt. Low	(0.2)	(0.5)	0.4	(1.4)	(2.2)	(0.4)
Construction (6%)	-October Std.	4.2	4.1	0.4	(1.7)	1.3	2.5
	-Alt. Low	4.2	4.1	(0.4)	(6.6)	(1.8)	1.7
Trade, Transportation, and Utilities (19%)	-October Std.	1.4	1.1	0.5	1.5	1.7	0.8
	-Alt. Low	1.4	1.1	0.1	(0.2)	1.1	1.0
Information (2%)	-October Std.	(2.1)	(0.5)	(0.2)	(0.9)	2.0	0.7
	-Alt. Low	(2.1)	(0.5)	0.1	(0.6)	0.2	0.2
Financial Activities (6%)	-October Std.	0.9	2.0	1.3	0.3	1.0	1.7
	-Alt. Low	0.9	2.0	0.9	(3.0)	0.7	3.3
Professional and Business Services (13%)	-October Std.	3.0	2.8	2.5	3.3	4.9	3.4
	-Alt. Low	3.0	2.8	1.4	1.9	3.9	3.9
Education and Health Services (13%)	-October Std.	2.3	2.3	2.2	1.4	1.7	1.0
	-Alt. Low	2.3	2.3	2.4	1.9	2.4	1.5
Leisure and Hospitality (10%)	-October Std.	2.6	2.1	2.2	2.7	1.3	1.9
	-Alt. Low	2.6	2.1	2.3	2.8	0.7	2.2
Other Services (4%)	-October Std.	(0.2)	(0.1)	0.7	1.0	0.0	0.1
	-Alt. Low	(0.2)	(0.1)	1.6	3.8	0.3	(0.5)
Government (16%)	-October Std.	0.7	0.8	0.8	0.5	1.5	1.7
	-Alt. Low	0.7	0.8	0.5	0.0	0.7	1.7
Unemployment Rate (%)	-October Std.	5.3	4.8	4.8	5.0	4.8	4.6
	-Alt. Low	5.3	4.8	5.0	5.8	5.9	5.4

The October Std. forecast is Global Insight's October 2006 U.S. standard forecast.

The Alt Low forecast is Global Insight's October 2006 U.S. Alternative Low Growth forecast.

* Represents the sector's percentage share of total.

SECTION 2
THE VIRGINIA ECONOMY

Section 2

The Virginia Economy

Introduction

This section begins with a review of fiscal year 2006, comparing actual economic results to the official forecast for the year, as shown in Table 2.1. Following the review, the section turns to the outlook for fiscal years 2007 through 2010. Tables 2.2 and 2.3 compare the October standard forecast, based on Global Insight's October 2006 standard forecast, with the official forecast.

The official forecast is based on the October 2005 standard U.S. forecast of Global Insight and the corresponding Virginia forecast developed by the Department of Taxation, and incorporates recommendations from the October 2005 GABE meeting. Tables 2.4 and 2.5 compare the October standard forecast with Global Insight's alternative low-growth scenario.

Graphic and tabular data are presented throughout this section. More detailed tabular data are contained in the appendices. Appendix A-1 shows quarterly historical data for major forecast variables from fiscal year 2004 through fiscal year 2006. Quarterly data through fiscal year 2010 for the two forecasts are contained in Appendix A-2. Appendix A-3 displays annual historical and forecast data from fiscal year 2001 through fiscal year 2010.

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 2005 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 year. The table below compares the base CES employment data series with the series incorporating ES-202 data.

<u>FY06</u>	<u>CES</u>	<u>ES-202</u>
Q1	2.4%	2.9%
Q2	2.2%	1.8%
Q3	2.2%	2.2%
Q4	1.8%	1.8%
Annual	2.2%	2.2%

VIRGINIA ECONOMY

Table 2.1 - Fiscal Year 2006 Virginia Forecast Performance

	<u>Actual</u>	<u>Forecast</u>	<u>Actual Minus Forecast</u>
<u>Income (% Change)</u>			
Total Personal Income	6.1	7.2	(1.1)
Real Personal Income	2.8	3.9	(1.1)
Wages and Salaries (58%)*	6.8	6.9	(0.1)
Average Wage (Nonag. Employment)	4.5	5.0	(0.5)
Dividends, Interest, and Rent (16%)	4.1	6.2	(2.1)
Supplements to Wages and Salaries (15%)	6.2	8.9	(2.7)
Proprietor's Income (7%)	6.4	7.5	(1.1)
<u>Employment and Labor Markets (% Change)</u>			
Total Nonagricultural Employment	2.2	1.8	0.4
Manufacturing (8%)*	(0.9)	(0.3)	(0.6)
Construction & Mining (7%)	5.5	3.2	2.3
Trade, Transportation, and Utilities (18%)	2.4	1.3	1.1
Information (3%)	(2.7)	1.4	(4.1)
Financial Activities (5%)	1.5	2.0	(0.5)
Professional and Business Services (16%)	2.5	3.1	(0.6)
Education and Health Services (11%)	4.1	2.4	1.7
Leisure and Hospitality (9%)	2.6	1.9	0.7
Other Services (5%)	0.8	2.3	(1.5)
Government (18%)	1.6	0.9	0.7
<u>Labor Markets (% Change)</u>			
Unemployment Rate (%)	3.2	3.7	(0.5)
<u>Housing (Thousands)</u>			
Net Migration	41.3	41.2	0.1
Single Family Housing Starts	44.6	53.7	(9.1)
Multi-Family Housing Starts	8.4	10.8	(2.4)

The forecast data are based on the October 2005 U.S. standard forecast developed by Global Insight.

* Represents the sector's percentage share of total.

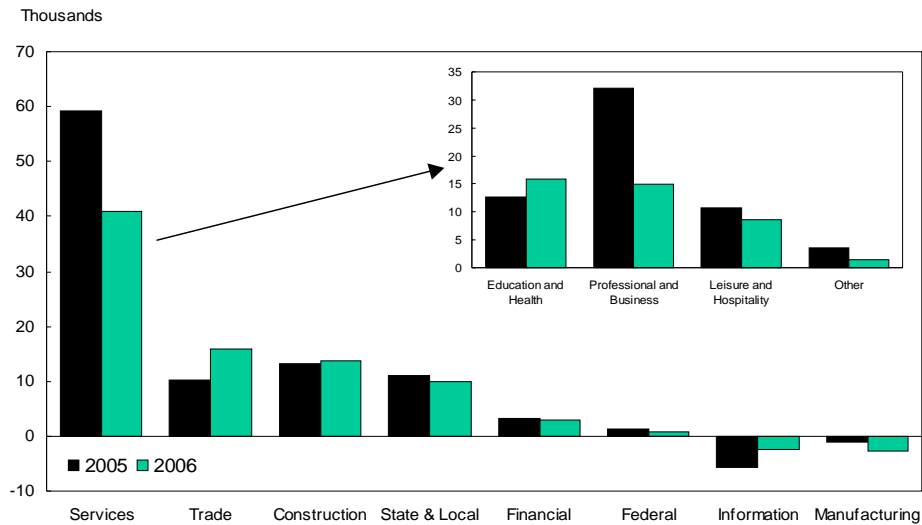
Review of Fiscal Year 2006

The Virginia economy performed near expectations in fiscal year 2006. Growth in total nonagricultural employment was stronger than projected. Income gains slightly lagged the forecast. The housing market continued at a heated pace, with moderation during the second half of the year. Economic growth was strongest in Northern Virginia, driven by the continued strength in federal government spending. As in prior years, Virginia continued to outperform the nation in fiscal year 2006.

Virginia's income statistics were below projected growth in fiscal year 2006. Total personal income increased 6.1 percent --1.1 percentage points below forecast. Income from wages and salaries, which accounts for close to sixty percent of total personal income, grew 6.8 percent, below the forecast of a 6.9 percent increase. Average wage growth of 4.5 percent was 0.5 percentage point below forecast. Proprietor's income grew 6.4 percent for the year, 1.1 percentage point below the annual estimate. Both dividends, interest, and rental income and supplements to wages and salaries (formerly other labor income) finished the year below their respective estimates.

Employment growth was ahead of expectations in fiscal year 2006. Year-over-year job growth of 2.2 percent was above the forecast of a 1.8 percent annual gain. Total nonagricultural employment increased by 78,600 jobs -- an addition of 14,400 more jobs than forecast -- after increasing by 91,500 jobs in fiscal year 2005. The service sector was the major driver of growth, along with trade, transportation, and utilities and construction. The manufacturing and information sectors continued to lose jobs in fiscal year 2006. Five out of ten employment sectors grew at rates exceeding expectations, the largest being construction. Figure 2.1 displays fiscal year 2006 job gains and losses by sector compared with fiscal year 2005.

Figure 2.1
VIRGINIA JOB GAINS/LOSSES BY SECTOR
FISCAL YEARS 2005 AND 2006



VIRGINIA ECONOMY

Industries

The service sector, long the dominant sector of the Virginia economy, added 40,900 jobs in fiscal year 2006. In a departure from prior years, education and health services made the largest contribution, with a gain of 15,900 jobs. The professional and business services subsector added 14,900 jobs. Taken together, nearly forty percent of total jobs gains in the Commonwealth during the year were in education and health and professional and business services. The leisure and hospitality and other services subsectors added a combined total of 10,100 jobs.

Employment in trade, transportation, and utilities increased by 15,900 jobs. Wholesale and retail trade (82 percent of the supersector) showed healthy growth in fiscal year 2006, with employment increasing by 14,200 jobs. For the year, trade, transportation, and utilities increased 2.4 percent, ahead of the forecast of 1.3 percent growth.

Construction and mining employment increased 5.5 percent, adding 13,700 jobs. The continued strength in new home construction drove growth 2.3 percentage points above forecast.

State and local government employment increased 1.9 percent for the year, adding 9,800 jobs. The bulk of these gains were in local government -- specifically through the hiring of teachers. Virginia continued to benefit from increased federal activity. With over 150,000 employees, federal civilian employment accounts for about four percent of Virginia's employment base -- double the national average. For the year, federal government employment rose by 700 jobs, an increase of 0.4 percent.

The financial activities sector added 2,900 jobs over the year, benefiting from favorable demographic trends. Real estate, mortgage, and insurance companies benefitted from continued growth in the housing market.

Employment in the information sector continued to decline, with a loss of 2,500 jobs in fiscal year 2006, bringing total jobs losses in this sector since the dot.com implosion to 29,900 -- a cumulative decline of 24.4 percent. The sector continues to be adversely affected by the outsourcing of telecommunication and other information jobs.

The manufacturing sector, which shed only 1,200 jobs in fiscal year 2005, saw a decline of 2,600 jobs in fiscal year 2006, marking the eighth consecutive year of declines. Gains in durable goods were offset by a decline in nondurable goods. For the year, manufacturing employment declined by 0.9 percent, compared to the forecast of a 0.3 percent decline.

Overall, fiscal year 2006 displayed the typical growth pattern for Virginia -- growth in service industries somewhat offset by a decline in manufacturing. The key to employment growth was continued strength in the housing market. Increases in trade, transportation, and utilities were in line with healthy consumer fundamentals. These gains, along with growth in government employment, drove the increase in total nonagricultural employment.

Regions

Employment increased in all regions of the Commonwealth in fiscal year 2006. In Northern Virginia, which represents about a third of all jobs in the state, total employment increased by 3.2 percent -- a gain of 39,800 jobs, over half of total state gains for the year. The service sector as a whole added 23,500 jobs, approximately 60 percent of total gains, including 15,100 in professional and business services, most of which are federal government-related. Construction employment was also a bright spot, with growth of 6.4 percent, adding 5,700 jobs. These gains were partially offset by a decline of 2,200 jobs in the information sector. Overall, the region benefited from its proximity to Washington, D.C., with a significant portion of government spending on homeland security flowing to area companies. The area added 800 federal government jobs in fiscal year 2006.

The Norfolk-Virginia Beach-Newport News MSA experienced employment growth of 1.2 percent in fiscal year 2006. The region had a gain of 8,900 jobs, down from the 16,200 jobs added in fiscal year 2005. The continued deployment of many of the military personnel situated in the area remained a drag on growth. The tourism industry, long a staple of the area economy, added 1,800 jobs in fiscal year 2006, growth of 2.2 percent.

Employment in the Richmond-Petersburg MSA increased 1.8 percent in fiscal year 2006, an addition of 11,300 jobs. Gains were centered in professional and business services, education and health services, trade, transportation, and utilities, and construction. Continued strength in the housing market led to gains in financial activities employment.

Employment in the balance of the state increased by 18,700 jobs, growth of 1.8 percent. Gains were strongest in trade, transportation, and utilities and service employment. Growth in construction and mining employment accounted for 5,500 jobs. The manufacturing sector experienced another annual decline, bringing total job losses since declines began in fiscal year 1999 to 59,400 jobs, or 27 percent of the employment base. Many rural areas of the state, particularly Southside and Southwest Virginia, are still dependent on manufacturing activity and international trade. Weakness in those sectors continues to be a drag on overall growth.

Summary

The Virginia economy performed near expectations in fiscal year 2006. Growth in total nonagricultural employment was stronger than projected, with major contributions from construction and education and health services. The housing market continued at a heated pace, with moderation during the second half of the year. Economic growth was strongest in Northern Virginia, driven by the continued strength in federal government spending.

Income gains were below expectations, in part due to the mix of jobs created over the course of the year. Despite performing below forecast, income indicators still exhibited healthy growth.

VIRGINIA ECONOMY

The Standard Forecast

Overview

The Virginia economy is expected to grow near trend over the forecast horizon, with growth in employment and income near historical averages. The service sector will continue to contribute the bulk of the gains. High energy prices, expanding debt burdens, and the slowdown in housing represent significant risks to consumer spending. However, expectations are that consumer fundamentals will remain healthy, leading to gains in retail trade employment. Overall, continued defense-related spending, as well as low business costs and strong population growth, are expected to drive Virginia's economic performance in fiscal year 2007.

This year's standard forecast for Virginia is stronger in employment and income growth than last year's official forecast. The standard forecast projects that Virginia will outperform the nation in total nonagricultural employment growth through fiscal year 2010. The forecast anticipates trend-level growth in employment in fiscal year 2007 and over the remainder of the forecast horizon. Employment growth in construction and trade, transportation, and utilities will offset below-trend growth in the service sector. Figure 2.2 compares job growth in Virginia with that of the nation.

Figure 2.2
U.S. AND VIRGINIA EMPLOYMENT GROWTH
HISTORY AND FORECAST - FISCAL YEARS 1992-2010

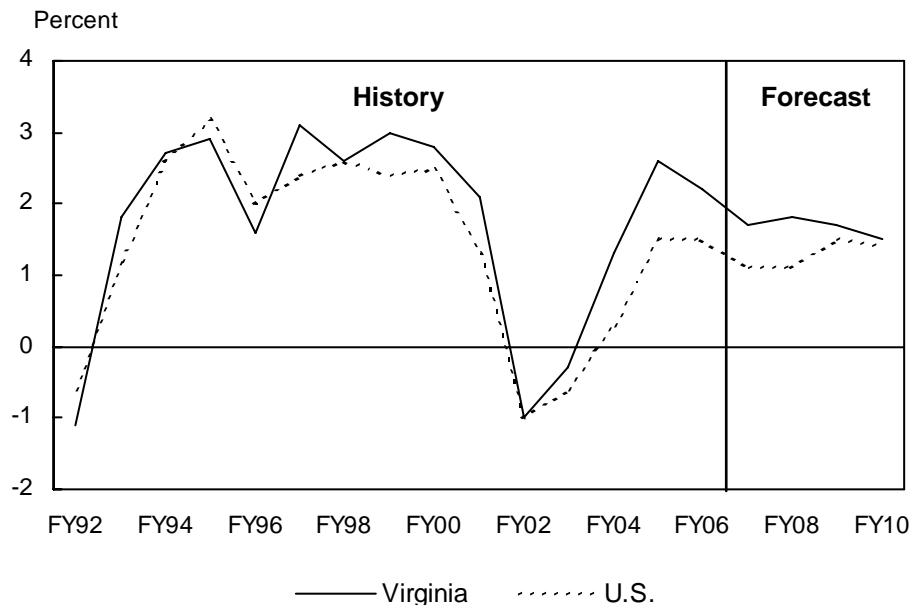
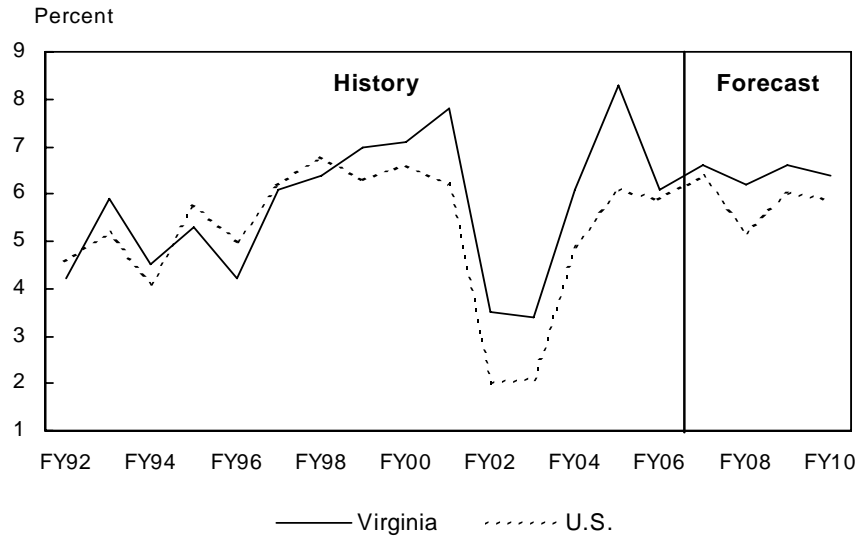


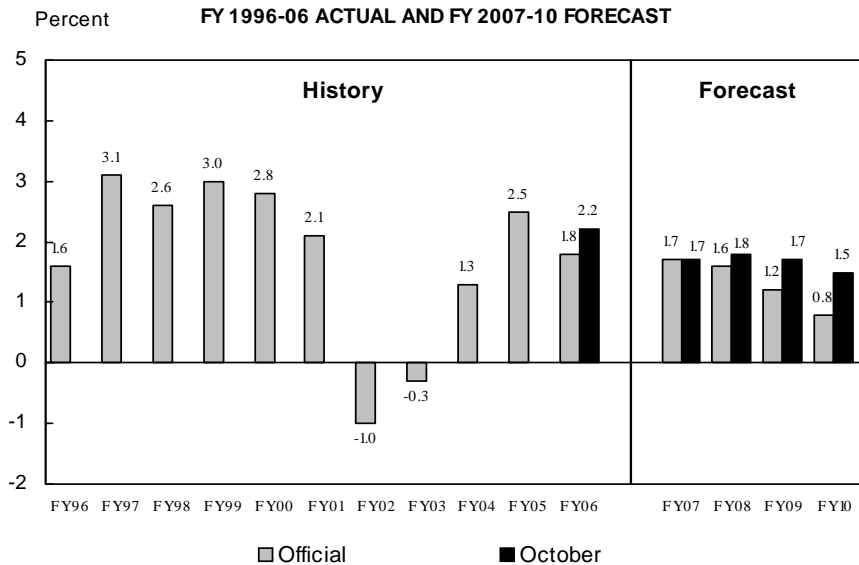
Figure 2.3 compares personal income growth in Virginia with that of the nation. Total personal income growth in Virginia is expected to exceed the nation's over the forecast horizon. The growth and diversity of Virginia's labor force is the basis of the outlook for personal income growth.

Figure 2.3
U.S. AND VIRGINIA PERSONAL INCOME GROWTH
HISTORY AND FORECAST - FISCAL YEARS 1992-2010



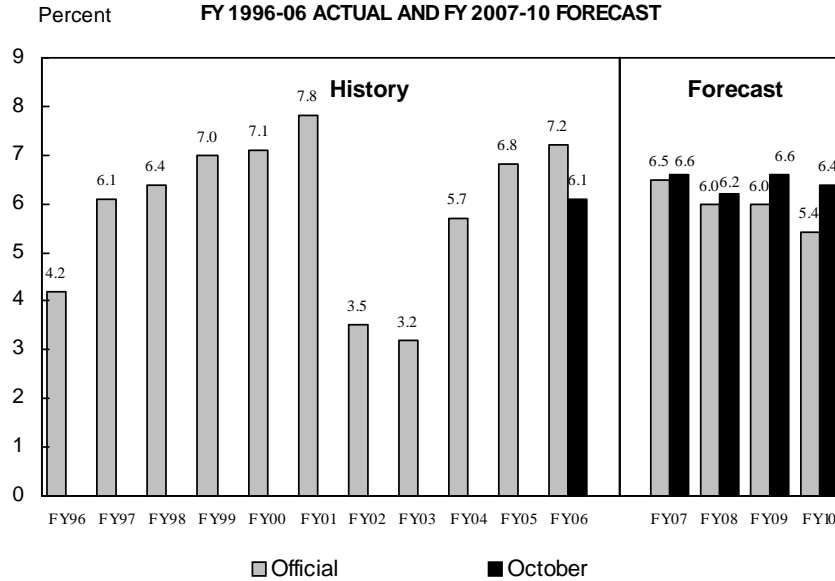
As illustrated in Figures 2.4 and 2.5 (on the following page), the standard forecast for employment growth mirrors the official forecast in fiscal year 2007, and is stronger over the forecast horizon. Total nonagricultural employment is expected to increase by 1.7 percent in fiscal year 2007 and 1.8 percent in fiscal year 2008. Personal income growth is projected to be better than the official forecast on average, with growth of 6.6 percent in fiscal year 2007 and 6.2 percent in fiscal year 2008.

Figure 2.4
VIRGINIA EMPLOYMENT GROWTH
FY 1996-06 ACTUAL AND FY 2007-10 FORECAST



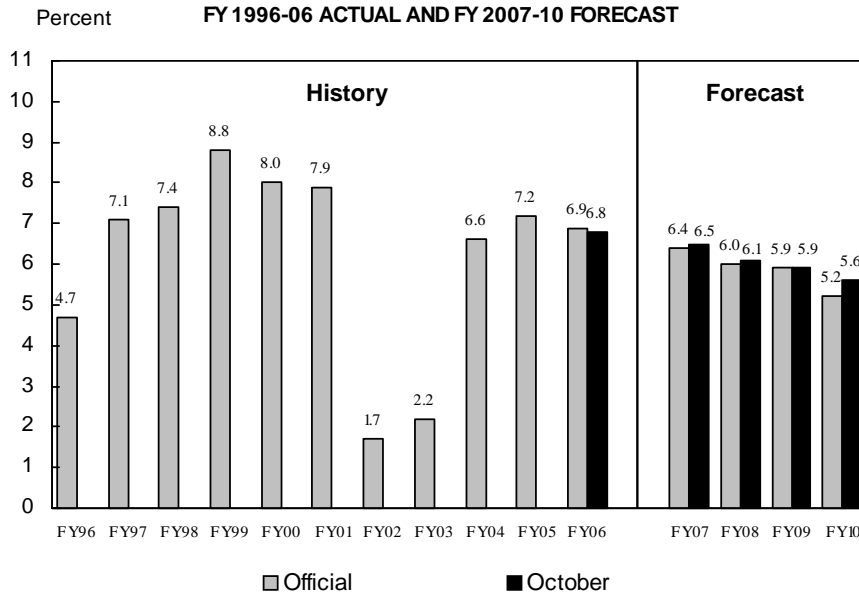
VIRGINIA ECONOMY

Figure 2.5
VIRGINIA PERSONAL INCOME GROWTH
FY 1996-06 ACTUAL AND FY 2007-10 FORECAST



As shown below in Figure 2.6, projections for growth in wages and salaries is close to the official forecast on average over the forecast horizon. Growth is expected to be 6.5 percent in fiscal year 2007, slightly ahead of the official estimate, followed by 6.1 percent growth in fiscal year 2008.

Figure 2.6
VIRGINIA WAGES AND SALARIES GROWTH
FY 1996-06 ACTUAL AND FY 2007-10 FORECAST



Tables 2.2 and 2.3 on the following pages compare the October standard Virginia forecast with the official forecast. The October standard forecast expects trend-level employment growth in fiscal year 2007, followed by growth slightly above trend in fiscal year 2008. Income gains are projected to be slightly ahead of trend over the forecast horizon.

**Table 2.2 - Fiscal Years 2005-2010 October & Official
Virginia Economic Forecasts - Employment and Labor Markets**

		<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
<u>Employment (% Change)</u>							
Total Nonagricultural Employment	-October Std.	2.6	2.2	1.7	1.8	1.7	1.5
	-Official	2.5	1.8	1.7	1.6	1.2	0.8
Manufacturing (8%)*	-October Std.	(0.4)	(0.9)	0.4	(0.5)	(1.1)	(0.3)
	-Official	(0.1)	(0.3)	(1.2)	(0.4)	(0.2)	(0.4)
Construction & Mining (7%)	-October Std.	5.6	5.5	2.9	3.1	2.1	3.1
	-Official	4.9	3.2	1.3	2.2	0.8	0.5
Trade, Transportation, and Utilities (18%)	-October Std.	1.6	2.4	1.6	1.8	1.6	0.8
	-Official	1.7	1.3	1.7	1.4	0.5	0.1
Information (3%)	-October Std.	(5.8)	(2.7)	(0.2)	1.7	2.4	1.2
	-Official	(1.1)	1.4	2.5	2.6	2.6	3.1
Financial Activities (5%)	-October Std.	1.8	1.5	1.2	0.2	1.8	3.0
	-Official	1.5	2.0	(0.1)	0.9	1.3	1.6
Professional and Business Services (16%)	-October Std.	5.7	2.5	3.1	3.6	4.1	3.1
	-Official	4.5	3.1	3.1	3.4	3.1	1.6
Education and Health Services (11%)	-October Std.	3.4	4.1	2.2	1.8	2.0	1.3
	-Official	4.3	2.4	2.5	1.6	1.2	0.4
Leisure and Hospitality (9%)	-October Std.	3.4	2.6	2.5	2.1	1.0	1.1
	-Official	2.3	1.9	2.1	0.7	1.2	0.7
Other Services (5%)	-October Std.	2.1	0.8	2.2	2.2	0.3	0.2
	-Official	2.7	2.3	2.3	2.2	2.4	2.2
Government (18%)	-October Std.	1.9	1.6	0.3	0.9	1.0	0.9
	-Official	1.9	0.9	1.5	0.9	0.3	0.5
<u>Labor Markets (% Change)</u>							
Unemployment Rate (%)	-October Std.	3.6	3.2	3.3	3.5	3.3	3.2
	-Official	3.5	3.7	3.7	3.7	3.6	3.6

The October Std. forecast from the Department of Taxation is based on Global Insight's October 2006 U.S. standard forecast.

The Official Forecast from the Department of Taxation is based on Global Insight's October 2005 U.S. standard forecast.

* Represents the sector's percentage share of total.

VIRGINIA ECONOMY

**Table 2.3 - Fiscal Years 2005-2010 October & Official
Virginia Economic Forecasts - Income and Other Indicators**

		FY05	FY06	FY07	FY08	FY09	FY10
<u>Income (% Change)</u>							
Total Personal Income	-October Std.	6.8	6.1	6.6	6.2	6.6	6.4
	-Official	8.3	7.2	6.5	6.0	6.0	5.4
Real Personal Income	-October Std.	4.0	2.8	4.4	4.2	4.7	4.5
	-Official	5.5	3.9	4.6	4.1	3.8	3.1
Wages and Salaries (58%)*	-October Std.	7.2	6.8	6.5	6.1	5.9	5.6
	-Official	8.5	6.9	6.4	6.0	5.9	5.2
Average Wage (Nonag. Employ.)	-October Std.	4.5	4.5	4.7	4.2	4.1	4.1
	-Official	5.8	5.0	4.6	4.4	4.7	4.4
Dividends, Interest, and Rent (16%)	-October Std.	2.5	4.1	7.7	7.6	9.5	10.0
	-Official	6.5	6.2	7.5	8.2	8.4	7.0
Supplements to Wages and Salaries (15%)	-October Std.	9.8	6.2	7.5	5.8	7.5	7.1
	-Official	12.1	8.9	6.5	5.5	5.3	6.1
Proprietor's Income (7%)	-October Std.	11.2	6.4	2.4	2.1	1.8	0.0
	-Official	8.2	7.5	5.3	3.6	3.0	2.5
<u>Migration and Housing (Thousands)</u>							
Net Migration	-October Std.	37.5	41.3	45.9	47.1	48.0	48.1
	-Official	40.9	41.2	41.2	41.2	41.3	41.5
Single Family Housing Starts	-October Std.	49.7	44.6	42.2	40.8	41.1	41.9
	-Official	50.6	53.7	49.9	49.1	47.9	47.1
Multi-Family Housing Starts	-October Std.	8.3	8.4	6.9	7.2	7.6	7.4
	-Official	11.1	10.8	11.1	11.7	11.2	10.4

The October Std. forecast from the Department of Taxation is based on Global Insight's October 2006 U.S. standard forecast.

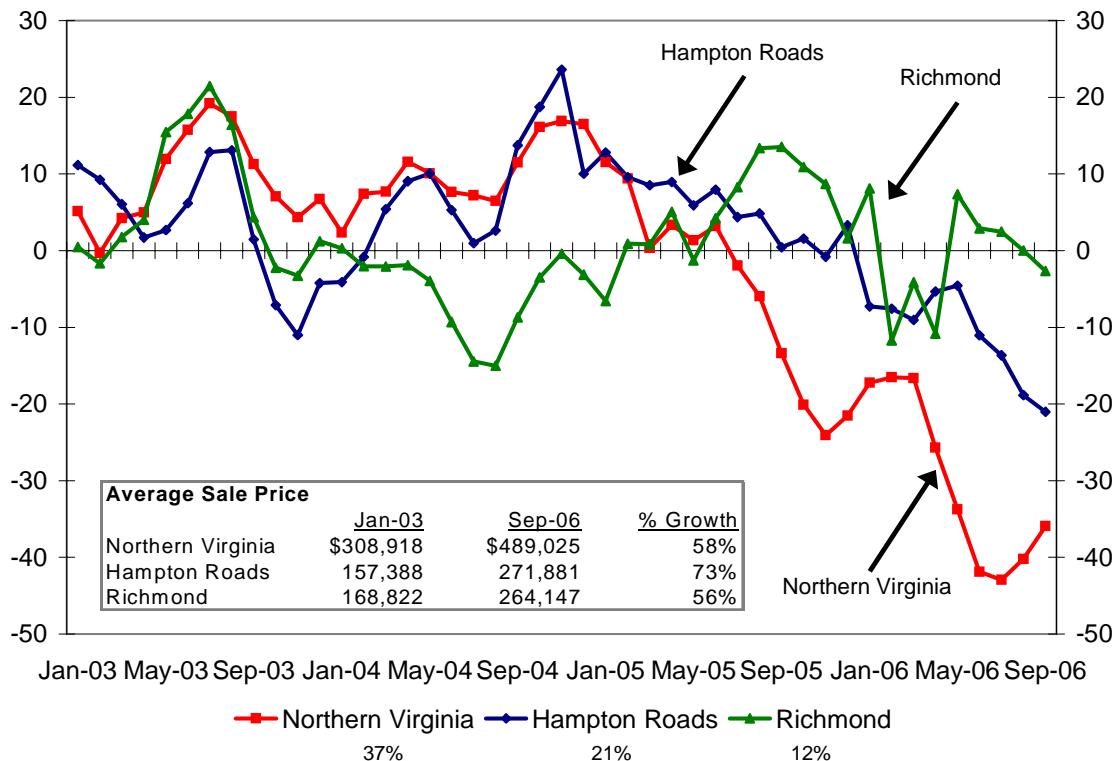
The Official Forecast from the Department of Taxation is based on Global Insight's October 2005 U.S. standard forecast.

* Represents the sector's percentage share of total.

The greatest risk to economic growth in the Commonwealth is the slowdown in the housing market. Housing, along with federal defense spending, has been the main engine of economic growth over the last three years. Like many states, Virginia has experienced extraordinary growth in household formation from generational low interest rates and new financing products. The increased activity in the housing market has led to annual double-digit growth in home prices, providing additional cash to consumers via refinancing and home equity loans. Alternative financing, i.e., creative mortgages, has sustained activity in recent quarters as interest rates have risen and affordability has declined.

The most recent data reveal a significant slowdown in housing-related economic activity, with the potential for a downward correction in home prices. Figure 2.7 illustrates the slowdown using pending homes sales in the three major metro areas of the state as reported by the Virginia Association of Realtors (VAR). These data are a leading indicator of future closings and associated recordation tax revenues.

Figure 2.7
PENDING HOME SALES IN NORTHERN VIRGINIA, HAMPTON ROADS, AND RICHMOND
 YEAR-OVER-YEAR PERCENT CHANGE
 SEASONALLY-ADJUSTED 3-MONTH MOVING AVERAGE



As illustrated above, pending home sales in Northern Virginia have been declining since last July. The most recent data show a 36 percent decline in pending home sales from the prior year. The Hampton Roads area has been declining since the start of the year, with pending home sales down 21 percent through the latest month of data. The Richmond metro area has declined over the last two months, following gains in the prior three months.

VIRGINIA ECONOMY

According to analysis by Moody's Economy.com, both the Northern Virginia and Richmond metro areas are classified as overpriced markets, with a greater than 50 percent likelihood that home prices will be lower one year from now. This is confirmed by data from the VAR, which reveals declines in the average sales price in Northern Virginia on a month-to-month basis since last fall. Since peaking last November at around \$525,000, the seasonally-adjusted three-month moving average of the average sales price in Northern Virginia has steadily declined. The most recent data put the level at around \$497,000, down nearly \$30,000 in just ten months. Prices in the Richmond metro area and Hampton Roads are slowly leveling off, and have yet to experience any sustained monthly declines.

The slowdown in the housing market is poised to produce a combination of negative results: 1) house price depreciation, damaging household balance sheets, 2) reduced consumer spending due to increased house payments associated with adjustable rate mortgages (ARMs) and interest-only loans, 3) reduced employment in construction, trade, and financial activities, and 4) default on creative mortgages, driven by negative amortization and large balance/interest rate resets. The standard forecast reflects a "soft-landing" in housing. However, a severe downturn would have much more serious effects, as illustrated in the alternative low-growth forecast.

The Global Insight Alternative Virginia Forecast

Tables 2.4 and 2.5 on the following pages compare the October standard Virginia forecast with Global Insight's alternative low-growth forecast.

Global Insight's alternative low-growth forecast for Virginia reflects a more severe downturn in the housing market. Employment growth is substantially lower through fiscal year 2009, leading to weaker growth in wages and salaries.

Employment growth in fiscal year 2007 is 1.4 percent, 0.3 percentage point below the standard forecast, with additional slowing to 0.8 percent growth in fiscal year 2008. Growth picks up modestly over the forecast horizon, averaging 1.4 percent.

Total personal income growth is similar to the standard forecast, with 6.7 percent growth in fiscal year 2007 and 6.3 percent growth in fiscal year 2008, 0.1 percentage point above the standard forecast, due to stronger growth in net transfer payments. Wages and salaries growth is 0.3 percentage point lower in fiscal year 2007. Growth for fiscal year 2008 is expected to fall to 5.3 percent, reflecting the weaker employment picture, with growth 0.8 percentage point lower than the standard forecast.

**Table 2.4 - Fiscal Years 2005-2010 October & Alternative Forecast
Virginia Economic Forecasts - Employment and Labor Markets**

		<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
<u>Employment (% Change)</u>							
Total Nonagricultural Employment	-October Std.	2.6	2.2	1.7	1.8	1.7	1.5
	-Alt. Low	2.6	2.2	1.4	0.8	1.2	1.7
Manufacturing (8%)*	-October Std.	(0.4)	(0.9)	0.4	(0.5)	(1.1)	(0.3)
	-Alt. Low	(0.4)	(0.9)	1.0	(1.7)	(2.5)	(0.5)
Construction & Mining (7%)	-October Std.	5.6	5.5	2.9	3.1	2.1	3.1
	-Alt. Low	5.6	5.5	2.1	(2.0)	(1.1)	2.3
Trade, Transportation, and Utilities (18%)	-October Std.	1.6	2.4	1.6	1.8	1.6	0.8
	-Alt. Low	1.6	2.4	1.2	0.1	1.5	1.2
Information (3%)	-October Std.	(5.8)	(2.7)	(0.2)	1.7	2.4	1.2
	-Alt. Low	(5.8)	(2.7)	0.4	2.1	(0.5)	0.4
Financial Activities (5%)	-October Std.	1.8	1.5	1.2	0.2	1.8	3.0
	-Alt. Low	1.8	1.5	0.7	(4.4)	1.2	5.4
Professional and Business Services (16%)	-October Std.	5.7	2.5	3.1	3.6	4.1	3.1
	-Alt. Low	5.7	2.5	1.0	1.8	3.0	3.6
Education and Health Services (11%)	-October Std.	3.4	4.1	2.2	1.8	2.0	1.3
	-Alt. Low	3.4	4.1	2.3	2.4	2.9	1.9
Leisure and Hospitality (9%)	-October Std.	3.4	2.6	2.5	2.1	1.0	1.1
	-Alt. Low	3.4	2.6	2.7	2.1	0.5	1.4
Other Services (5%)	-October Std.	2.1	0.8	2.2	2.2	0.3	0.2
	-Alt. Low	2.1	0.8	3.6	6.5	0.8	(0.7)
Government (18%)	-October Std.	1.9	1.6	0.3	0.9	1.0	0.9
	-Alt. Low	1.9	1.6	0.3	1.0	1.1	1.1
Unemployment Rate (%)	-October Std.	3.6	3.2	3.3	3.5	3.3	3.2
	-Alt. Low	3.6	3.2	3.4	4.1	4.3	3.8

The October Std. forecast from the Department of Taxation is based on Global Insight's October 2006 U.S. standard forecast.

The Alt. Low Forecast from the Department of Taxation is based on Global Insight's October 2006 U.S. Alternative Low Growth U.S. forecast.

* Represents the sector's percentage share of total.

VIRGINIA ECONOMY

**Table 2.5 - Fiscal Years 2005-2010 October & Alternative Forecast
Virginia Economic Forecasts - Income and Other Indicators**

		FY05	FY06	FY07	FY08	FY09	FY10
<u>Income (% Change)</u>							
Total Personal Income	-October Std.	6.8	6.1	6.6	6.2	6.6	6.4
	-Alt. Low	6.8	6.1	6.7	6.3	6.7	7.4
Real Personal Income	-October Std.	4.0	2.8	4.4	4.2	4.7	4.5
	-Alt. Low	4.0	2.8	3.9	2.9	3.4	4.2
Wages and Salaries (58%)*	-October Std.	7.2	6.8	6.5	6.1	5.9	5.6
	-Alt. Low	7.2	6.8	6.2	5.3	5.4	6.1
Average Wage (Nonag. Employ.)	-October Std.	4.5	4.5	4.7	4.2	4.1	4.1
	-Alt. Low	4.5	4.5	4.7	4.4	4.2	4.3
Dividends, Interest, and Rent (16%)	-October Std.	2.5	4.1	7.7	7.6	9.5	10.0
	-Alt. Low	2.5	4.1	9.3	9.9	8.4	11.9
Supplements to Wages and Salaries (15%)	-October Std.	9.8	6.2	7.5	5.8	7.5	7.1
	-Alt. Low	9.8	6.2	8.0	7.4	9.3	8.9
Proprietor's Income (7%)	-October Std.	11.2	6.4	2.4	2.1	1.8	0.0
	-Alt. Low	11.2	6.4	(0.4)	(6.7)	0.0	2.2
<u>Migration and Housing (Thousands)</u>							
Net Migration	-October Std.	37.5	41.3	45.9	47.1	48.0	48.1
	-Alt. Low	37.5	41.3	45.9	47.1	41.3	46.3
Single Family Housing Starts	-October Std.	49.7	44.6	42.2	40.8	41.1	41.9
	-Alt. Low	49.7	44.6	41.6	36.6	38.2	40.4
Multi-Family Housing Starts	-October Std.	8.3	8.4	6.9	7.2	7.6	7.4
	-Alt. Low	8.3	8.4	6.6	5.6	6.2	7.1

The October Std. forecast from the Department of Taxation is based on Global Insight's October 2006 U.S. standard forecast.

The Alt. Low Forecast from the Department of Taxation is based on Global Insight's October 2006 U.S. Alternative Low Growth U.S. forecast.

* Represents the sector's percentage share of total.

**SECTION 3
GENERAL FUND
REVENUES**

Section 3

General Fund Revenues

Fiscal Year 2006 in Review

In fiscal year 2006, total general fund revenues rose by 8.4 percent to \$14,834.3 million, exceeding the official forecast (7.3 percent growth) by \$147.0 million.

Collections in individual nonwithholding and corporate income taxes, two volatile sources, had another year of unusually strong growth in fiscal year 2006, and together contributed \$119.0 million to the surplus. Payroll withholding added another \$82.2 million. Collections of sales and use taxes were very close to the forecast, adding only \$8.9 million to the surplus. Collections in recordation taxes and the tax on insurance premiums were lower than expected, while refunds were higher than expected, reducing the annual surplus. Collectively, the five major sources ended the year \$120.2 million over the forecast.

Collections of miscellaneous taxes and other revenues were \$26.8 million above the estimate in fiscal year 2006. The bulk of the surplus was due to higher than expected collections of estate taxes and other revenue.

Table 3.1 on the next page compares actual revenues for fiscal year 2006 with the official forecast. The official revenue forecast was based on the October 2005 Global Insight standard forecast, the corresponding Virginia economic forecast developed by the Department of Taxation, and historical revenue collections data.

Total revenue collections in fiscal year 2006 had a forecast variance of 1.0 percent. The largest source, net individual income tax, recorded a variance of 1.5 percent. The nonwithholding component of individual income tax had a variance of 4.1 percent. Corporate income tax collections had a forecast variance of 2.4 percent. Collections in the payroll withholding component finished the year with a variance of 1.0 percent. Sales and use tax collections, the second largest source, had a forecast variance of 0.3 percent. Withholding and sales taxes are the two largest sources, comprising 73 percent of total general fund revenues. Taken together, these two sources were within 0.8 percent of the forecast. Wills, suits, deeds, and contract fees -- primarily recordation taxes -- had a forecast variance of 3.9 percent. The remaining miscellaneous taxes and other revenues had a forecast variance of 3.6 percent.

GENERAL FUND REVENUES

Table 3.1
Fiscal Year 2006 General Fund Collections: Actual and Forecast
(Dollars in Millions)

	Fiscal Year 2005		Fiscal Year 2006						
	Actual	% Growth	Forecast	Actual	Forecast Variance		% Growth over FY 2005		
					Dollars	Percent	Forecast	Actual	
MAJOR TAX SOURCES									
Corporate Income	\$ 616.7	44.9 %	\$ 851.5	\$ 871.6	\$ 20.1	2.4 %	38.1 %	41.3 %	
Individual Income									
Gross	9,586.6	11.4	10,410.1	10,591.2	181.1	1.7	8.6	10.5	
Withholding	7,513.0	6.7	7,978.8	8,061.0	82.2	1.0	6.2	7.3	
Nonwithholding	2,073.5	32.7	2,431.3	2,530.2	98.9	4.1	17.3	22.0	
Refunds	(1,234.2)	1.4	(1,239.7)	(1,282.6)	(42.9)	(3.5)	0.4	3.9	
Net Individual Income	8,352.4	13.1	9,170.4	9,308.6	138.2	1.5	9.8	11.4	
Insurance Company Premiums	373.6	6.3	392.5	373.8	(18.7)	(4.8)	5.1	0.1	
State Sales & Use Tax	2,946.1	15.0	2,803.8	2,812.7	8.9	0.3	(4.8)	(4.5)	
Wills, Suits, Deeds & Contract Fees	596.1	75.0	723.0	694.7	(28.3)	(3.9)	21.3	16.6	
Total Major Tax Sources	\$ 12,884.8	16.4 %	\$ 13,941.2	\$ 14,061.4	\$ 120.2	0.9 %	8.2 %	9.1 %	
MISCELLANEOUS TAXES AND OTHER REVENUES									
Alcoholic Beverages State Tax	\$ 102.7	7.1 %	\$ 109.3	\$ 110.0	\$ 0.7	0.7 %	6.4 %	7.1 %	
Bank Franchise Tax	10.6	22.4	10.9	12.3	1.4	13.1	2.8	16.3	
Beer & Beverage Excise Tax	41.8	(1.0)	42.0	42.9	0.9	2.2	0.5	2.8	
Corporate Franchise & Charter Fees	43.1	10.2	44.3	46.4	2.1	4.7	2.9	7.7	
Excess & Other Fees From Officers	(37.9)	(8.7)	(39.5)	(41.6)	(2.1)	5.3	(4.2)	(9.7)	
Estate & Gifts	150.0	0.2	144.0	160.4	16.4	11.4	(4.0)	7.0	
Institutional Revenues	9.2	(4.5)	9.2	8.2	(1.0)	(10.5)	0.0	(10.5)	
Interest & Rents	84.1	36.4	101.7	97.1	(4.6)	(4.5)	20.9	15.4	
Licenses & Permits	4.6	0.7	4.8	4.8	(0.0)	(0.7)	3.3	2.6	
Miscellaneous Taxes & Penalties	250.4	12.8	205.4	202.1	(3.3)	(1.6)	(18.0)	(19.3)	
Other Miscellaneous Revenues	55.7	(66.8)	23.4	40.2	16.8	71.9	(58.0)	(27.8)	
Public Service GR / Consumption Tax	88.3	1.7	90.6	90.0	(0.6)	(0.7)	2.6	1.9	
Total Misc. Taxes & Other Revenues	802.5	(5.9) %	\$ 746.1	772.9	26.8	3.6 %	(7.0) %	(3.7) %	
TOTAL GF REVENUES	\$ 13,687.3	14.8 %	\$ 14,687.3	\$ 14,834.3	\$ 147.0	1.0 %	7.3 %	8.4 %	
TRANSFERS									
A.B.C. Profits	\$ 24.9	48.2 %	\$ 26.6	\$ 30.0	\$ 3.4	13.0 %	6.8 %	20.7 %	
Lottery Profits	423.5	3.8	433.5	454.0	20.5	4.7	2.4	7.2	
Transfers Per Appropriations Act	291.1	(50.5)	365.0	381.6	16.6	4.6	25.4	31.1	
Total Transfers	\$ 739.5	(27.0) %	\$ 825.1	\$ 865.7	\$ 40.6	4.9 %	11.6 %	17.1 %	
TOTAL GENERAL FUND	\$ 14,426.8	11.6 %	\$ 15,512.4	\$ 15,700.0	\$ 187.6	1.2 %	7.5 %	8.8 %	

The Official forecast is based on the October 2005 Global Insight standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and reflects actions of the 2006 General Assembly, Special Session I.

GENERAL FUND REVENUES

Table 3.2 provides an evolutionary perspective of the fiscal year 2006 forecasts, used by the Governor and General Assembly, in terms of their variance from actual collections. The variances for total revenues ranged from 13.3 percent in the May 2004 forecast to 1.0 percent in the May 2006 official forecast.

The performance of the fiscal year 2006 forecast was better than historical averages. Over the last 25 years, actual collections have finished within 1.5 percent of the forecast. The 1.0 forecast variance in fiscal year 2006 was the lowest since fiscal year 2003.

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

	May-19 2006 Official	Dec-16 2005 Introduced	Apr-6 2005 Official	Dec-17 2004 Introduced	May-7 2004 Official	Dec-17 2003 Introduced
Major Tax Sources (95%)						
Corporate Income (6%)	2.4 %	20.6 %	71.5 %	75.3 %	111.9 %	92.1 %
Individual Income (63%)	1.5	2.6	11.7	11.9	13.5	14.9
Insurance Company Premiums (3%)	(4.8)	(4.8)	(9.6)	(9.6)	(9.9)	(12.0)
State Sales & Use Tax (19%)	0.3	0.0	(0.6)	(6.9)	(5.7)	(17.0)
Wills, Suits, Deeds & Contract Fees (5%)	(3.9)	(10.0)	43.6	54.1	100.4	NA
Total Major Tax Sources	0.9 %	2.1 %	11.9 %	10.7 %	13.8 %	11.8 %
Miscellaneous Taxes & Other Revenues (9%)	3.6 %	2.4 %	3.8 %	4.5 %	5.6 %	17.4 %
Total Revenues	1.0 %	2.1 %	11.4 %	10.4 %	13.3 %	12.1 %

Numbers in parentheses immediately following each source indicate collections as a percentage of total general fund revenues.

The May 19, 2006 forecast is based on the October 2005 Global Insight Standard outlook and the corresponding Virginia forecast developed by the Department of Taxation and reflects actions of the 2006 General Assembly Special Session I.

The December 16, 2005 forecast is based on the October 2005 Global Insight Standard outlook and the corresponding Virginia forecast developed by the Department of Taxation and accompanied the Governor's Budget Bill.

The April 6, 2005 forecast is based on the October 2004 Global Insight Standard outlook and the corresponding Virginia forecast developed by the Department of Taxation and reflects actions of the 2005 General Assembly session.

The December 17, 2004 forecast is based on the October 2004 Global Insight Standard outlook and the corresponding Virginia forecast developed by the Department of Taxation and accompanied the Governor's Budget Bill.

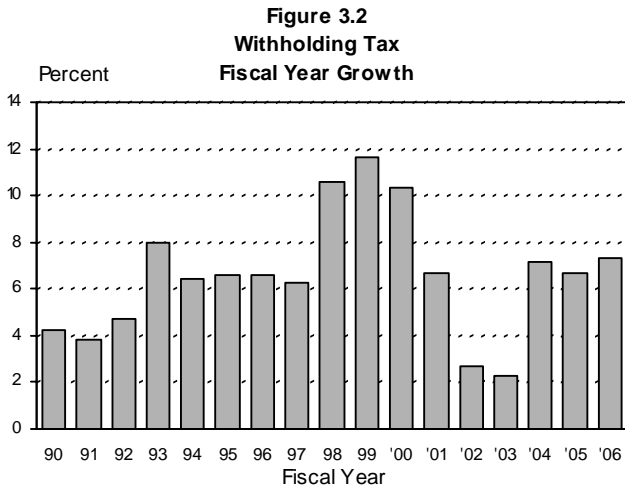
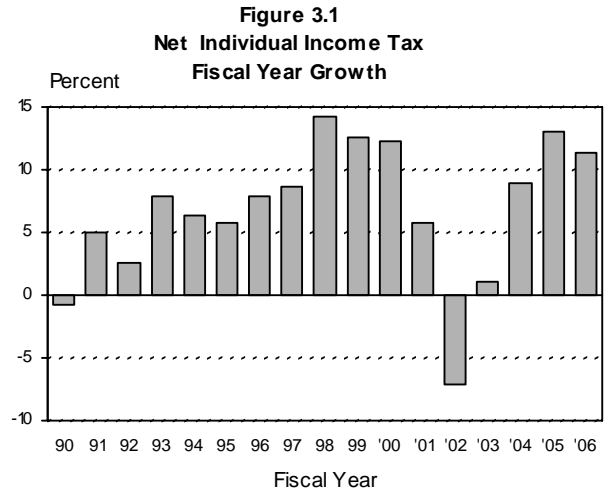
The May 7, 2004 forecast is based on the October 2003 Global Insight Standard outlook and the corresponding Virginia forecast developed by the Department of Taxation and reflects actions of the 2004 General Assembly session.

The December 17, 2003 forecast is based on the October 2003 Global Insight Standard outlook and the corresponding Virginia forecast developed by the Department of Taxation and accompanied the Governor's Budget Bill.

GENERAL FUND REVENUES

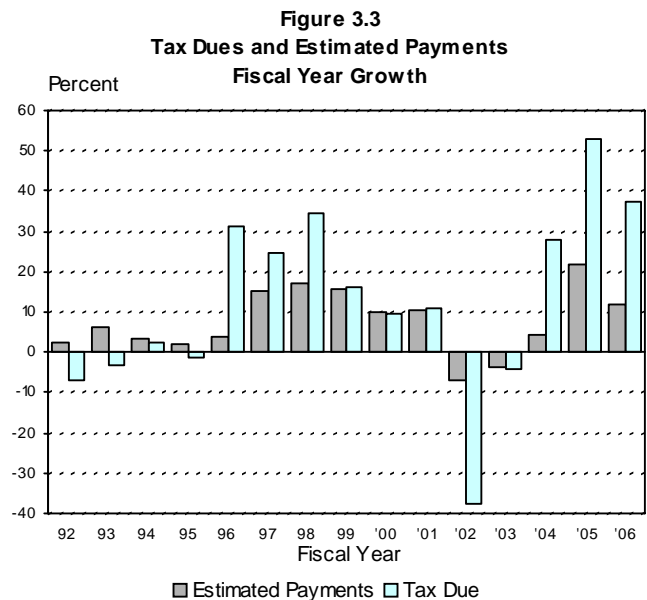
Individual Income Taxes

Collections of net individual income taxes grew 11.4 percent in fiscal year 2006, well ahead of the annual estimate of 9.8 percent growth. Receipts of \$9,308.6 million exceeded the official estimate by \$138.2 million. Most of the surplus resulted from continued strength in collections of nonwithholding payments. The chart at right illustrates the growth in net individual payments since fiscal year 1990.



Withholding: In fiscal year 2006, withholding receipts increased by 7.3 percent, 1.1 percentage point ahead of the forecasted growth rate of 6.2 percent. Collections of \$8,061.0 million were \$82.2 million over the forecast. Over the last three years, annual growth in this source has averaged 7.1 percent, the highest since the three-year period from fiscal year 1999 through 2001.

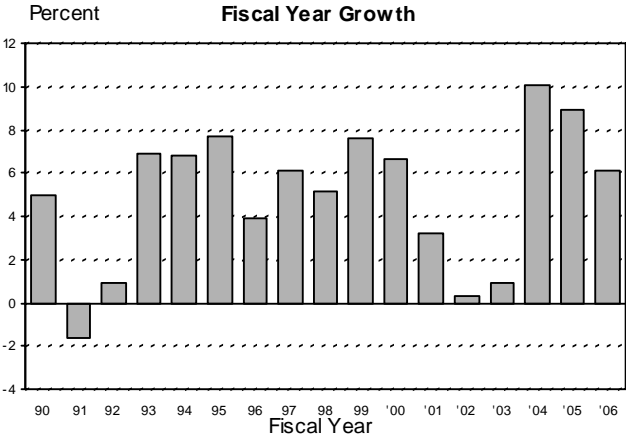
Nonwithholding: Collections of nonwithholding surged 22.0 percent in fiscal year 2006, the third strongest year on record. This followed growth of 32.7 percent in fiscal year 2005. Receipts of \$2,530.2 million were \$98.9 million ahead of the estimate. Several factors account for the strong growth. High profits resulted in strong growth in non-wage income from partnerships and S-corporations, as well as corporations granting bonuses to employees. Reduced federal tax rates on capital gains allowed filers to realize gains from a strong stock market. In addition, taxable IRA withdrawals were higher due to strength in the stock market.



Collections of quarterly estimated payments, the larger component of nonwithholding, were within 0.8 million of the forecast, growing 11.7 percent from fiscal year 2005. Collections of tax due payments -- final payments on tax year 2005 liability -- were \$99.7 million ahead of the forecast. Tax due payments jumped 37.3 percent from last year, compared with the forecast of 25.4 percent growth. This follows fiscal year 2005 growth of 53.0 percent, the highest growth on record for tax due payments.

Refunds: Income tax refunds issued in fiscal year 2006 were \$42.9 million more than expected, growing by 3.9 percent compared with the forecast of 0.4 percent.

**Figure 3.4
Sales Tax
Fiscal Year Growth**



Sales Taxes

Collections of sales and use taxes fell 4.5 percent in fiscal year 2006, \$8.9 million ahead of the forecast of a 4.8 percent decline. The decline was driven by two major legislative changes -- the reduction in the tax rate on food sales and the full repeal of the accelerated sales tax program.

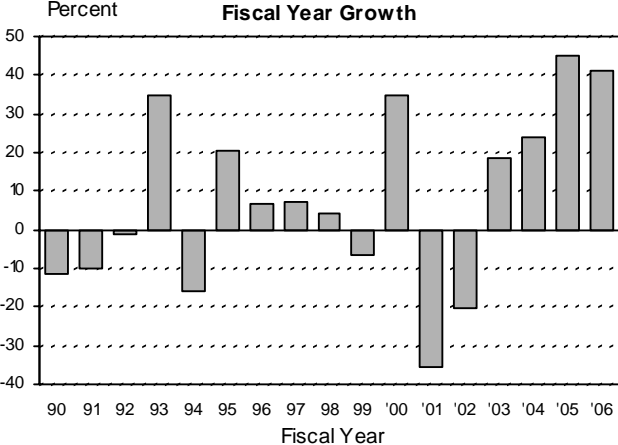
Removing the effects of recent legislation, underlying growth in sales and use tax was 6.1 percent in fiscal year 2006, compared with the annual forecast of 4.7 percent. The chart at left shows the adjusted growth rate.

Corporate Income Taxes

Corporate income tax collections attained a fourth consecutive year of double-digit growth in fiscal year 2006, and the second strongest year on record. The strongest year was fiscal year 2005, with 44.9 percent growth. Average annual growth over the four-year period was 32 percent.

Growth of 41.3 percent was 2.4 percentage points above the official estimate of 38.1 percent. Housing and defense-related industries drove the surplus.

**Figure 3.5
Corporate Income Tax
Fiscal Year Growth**



GENERAL FUND REVENUES

Wills, Suits, Deeds, and Contract Fees

This source fell short of its forecast by \$28.3 million to finish the year at \$694.7 million, a 16.6 percent increase from fiscal year 2005, but behind the official forecast of 21.3 percent growth.

The recordation tax on mortgages accounts for 87 percent of this source. Annual growth in recordation taxes averaged 22.7 percent over the last five years, as refinancing activity and a strong housing market boosted receipts. Adjusting for the rate increase effective in September 2004, collections of recordation taxes grew by 9.9 percent in fiscal year 2006. The chart at right shows the adjusted growth in this source.

Figure 3.6
Wills, Suits, Deeds and Contract Fees
Fiscal Year Growth

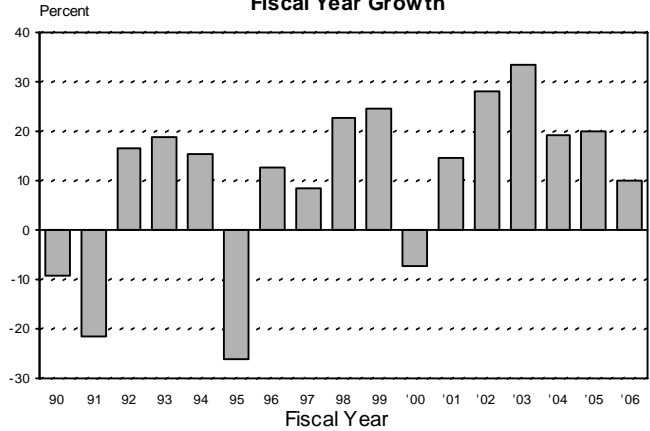
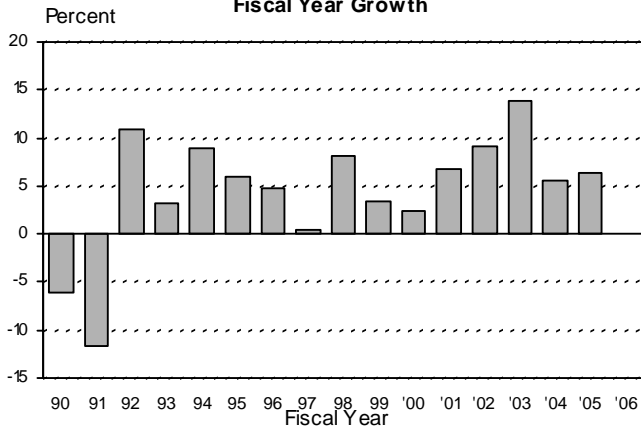


Figure 3.7
Insurance Premiums Tax
Fiscal Year Growth



Insurance Premiums Taxes

Collections of taxes on the premiums of insurance companies were \$373.8 million in fiscal year 2006 -- \$18.7 million below the forecast. Net receipts grew by 0.1 percent, compared with the forecasted growth rate of 5.1 percent.

Miscellaneous Taxes and Other Revenues

Collectively, minor revenue sources were \$26.8 million above the forecast in fiscal year 2006. The bulk of the surplus came from estate and gifts, a highly volatile source, and other revenue.

GENERAL FUND REVENUES

Interest Income

Table 3.3 below shows a comparison of investible balances, yields, and investment income for fiscal years 2005 and 2006. In fiscal year 2006, Net General Fund Interest on investments totaled \$93.5 million, \$50.9 million over fiscal year 2005. Average investible balances increased by 33.4 percent. The average yield increased by 1.2 percent to 3.62 percent as federal interest rates began to rise.

**TABLE 3.3
GENERAL FUND INTEREST INCOME
A COMPARISON OF ACTUAL COLLECTIONS FOR FISCAL YEARS 2005 AND 2006**

<u>General Account</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>Change</u>	<u>Change</u>
Average Investible Balances (Millions)	\$4,373.8	\$5,836.0	\$1,462.2	33.4 %
Average Yield (%)	2.39%	3.62%		1.2 %
Total Interest Received (Millions)	\$104.4	\$211.5	\$107.1	102.6 %
Less: Non-gen. Fund Transfers (Millions)	\$61.8	\$118.0	\$56.2	90.9 %
Net General Fund Interest (Millions)	\$42.6	\$93.5	\$50.9	119.5 %

Table 3.4 shows a comparison of the official and actual investible balances, yields, and interest income collections for fiscal year 2006. Because of revenue growth, General Account balances exceeded the forecast by over \$102.5 million.

**TABLE 3.4
GENERAL FUND INTEREST INCOME
A COMPARISON OF OFFICIAL FORECAST TO ACTUAL COLLECTIONS - FY 2006**

<u>General Account</u>	<u>Official Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent Variance</u>
Average Investible Balances (Millions)	\$5,733.5	\$5,836.0	\$102.5	1.8 %
Average Yield (%)	3.20%	3.62%		0.4 %
Total Interest Received (Millions)	\$183.5	\$211.5	\$28.0	15.3 %
Less: Non-gen. Fund Transfers (Millions)	\$91.7	\$118.0	\$26.3	28.7 %
Net General Fund Interest (Millions)	\$91.8	\$93.5	\$1.7	1.9 %

GENERAL FUND REVENUES

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 standard U.S. economic forecast and the corresponding Virginia forecast developed by the Department of Taxation, which incorporates input from the Governor's Advisory Board of Economists. The alternative forecast is based on the Global Insight October alternative low-growth 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 2007.

Appendix C1 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.

The Standard Forecast

Table 3.5 on the following pages provides a comparison of the November standard forecast with last year's official forecast, which was released in June 2006. In the November standard forecast, total general fund revenues were revised up from last year's official forecast, adding \$336.0 million in fiscal year 2007 and \$209.4 million in fiscal year 2008. The upward revisions to the forecast are mainly collections-based adjustments resulting from the continued strength in collections of Virginia's most volatile revenue sources -- individual nonwithholding and corporate income taxes. This year's economic forecast is essentially unchanged from last year's official forecast.

General fund revenue growth in fiscal year 2007 was revised up from the 4.2 percent growth projected in last year's official forecast to 6.5 percent growth in the November forecast. Growth in fiscal year 2008 is expected to be lower than last year's official forecast, falling a percentage point from 5.1 percent to 4.1 percent. Adjusting for the end of the Accelerated Sales Tax program in fiscal year 2006, general fund revenues are expected to increase 5.4 percent in fiscal year 2007. The basis for the outlook is a trend to slower economic growth, primarily due to the rapid decline in housing. The standard economic scenario includes a "soft-landing" for housing and the economy as a whole.

Net Individual Income Taxes

The forecast for net individual income taxes was revised upward substantially over the forecast horizon. The bulk of the increase is attributable to the nonwithholding component, with increases in withholding and refunds practically offsetting each other.

GENERAL FUND REVENUES

Table 3.5
The Official and November Standard General Fund Forecast for Fiscal Year 2007
(Dollars in Millions)

November 6, 2006

	Fiscal Year 2006		Fiscal Year 2007				
	Actual	% Growth	Official Forecast	November Forecast	Change	% Growth Over FY 06	
						Official	November
MAJOR TAX SOURCES							
Corporate Income	\$ 871.6	41.3 %	\$ 787.6	\$ 901.4	\$ 113.8	(9.6) %	3.4 %
Individual Income Tax:							
Gross	10,591.2	10.5	10,972.5	11,305.9	333.4	3.6	6.7
Withholding	8,061.0	7.3	8,486.5	8,517.5	31.0	5.3	5.7
Nonwithholding	2,530.2	22.0	2,486.0	2,788.4	302.4	(1.7)	10.2
Refunds	<u>(1,282.6)</u>	<u>3.9</u>	<u>(1,322.2)</u>	<u>(1,337.1)</u>	<u>(14.9)</u>	<u>3.1</u>	<u>4.2</u>
Net	9,308.6	11.4	9,650.3	9,968.8	318.5	3.7	7.1
Insurance Company Premiums	373.8	0.1	416.4	384.6	(31.8)	11.4	2.9
State Sales & Use Tax	2,812.7	(4.5)	3,155.0	3,089.5	(65.5)	12.2	9.8
Wills, Suits, Deeds, & Contract Fees	<u>694.7</u>	<u>16.6</u>	<u>588.0</u>	<u>554.4</u>	<u>(33.6)</u>	<u>(15.4)</u>	<u>(20.2)</u>
Total Major Tax Sources	\$ 14,061.4	9.1 %	\$ 14,597.3	\$ 14,898.7	\$ 301.4	3.8 %	6.0 %
MISCELLANEOUS TAXES AND OTHER REVENUES							
Alcoholic Beverage State Tax	\$ 110.0	7.1 %	\$ 112.9	\$ 114.4	\$ 1.5	2.6 %	4.0 %
Bank Franchise Tax	12.3	16.3	11.2	12.9	1.7	(9.1)	4.7
Beer & Beverage Excise Tax	42.9	2.8	42.0	44.0	2.0	(2.2)	2.5
Corporate Franchise & Charter Fees	46.4	7.7	45.3	45.3	0.0	(2.3)	(2.3)
Excess & Other Fees from Officers	(41.6)	(9.7)	(35.5)	(32.0)	3.5	14.6	23.1
Estate & Gifts	160.4	7.0	145.0	160.4	15.4	(9.6)	(0.0)
Institutional Revenues	8.2	(10.5)	9.2	8.8	(0.4)	11.7	6.9
Interest & Rents	97.1	15.4	182.1	194.9	12.8	87.5	100.7
Licenses & Permits	4.8	2.6	4.9	4.9	0.0	2.8	2.8
Miscellaneous Taxes and Penalties	202.1	(19.3)	239.7	217.7	(22.0)	18.6	7.7
Other Miscellaneous Revenues	40.2	(27.8)	13.7	34.1	20.4	(65.9)	(15.2)
Public Service GR / Consumption Tax	<u>90.0</u>	<u>1.9</u>	<u>92.8</u>	<u>92.5</u>	<u>(0.3)</u>	<u>3.1</u>	<u>2.8</u>
Total Misc. Taxes and Other Revenues	\$ 772.9	(3.7) %	\$ 863.3	\$ 897.9	\$ 34.6	11.7 %	16.2 %
TOTAL GF REVENUES	\$ 14,834.3	8.4 %	\$ 15,460.6	\$ 15,796.6	\$ 336.0	4.2 %	6.5 %
TRANSFERS							
A.B.C. Profits	\$ 30.0	20.7 %	\$ 27.3	\$ 27.3	\$ 0.0	(9.1) %	(9.1) %
Lottery Proceeds Fund	454.0	7.2	426.1	405.4	(20.7)	(6.1)	(10.7)
Transfers Per Appropriations Act	<u>381.6</u>	<u>31.1</u>	<u>345.1</u>	<u>345.1</u>	<u>0.0</u>	<u>(9.6)</u>	<u>(9.6)</u>
Total Transfers	\$ 865.7	17.1 %	\$ 798.5	\$ 777.8	\$ (20.7)	(7.8) %	(10.1) %
TOTAL GENERAL FUND	\$ 15,700.0	8.8 %	\$ 16,259.1	\$ 16,574.4	\$ 315.3	3.6 %	5.6 %

The Official forecast is based on the October 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and reflects actions of the 2006 General Assembly, Special Session I.

The November Standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and incorporates recommendations of GABE.

GENERAL FUND REVENUES

Table 3.5
The Official and November Standard General Fund Forecast for Fiscal Year 2008
(Dollars in Millions)

November 6, 2006

	Fiscal Year 2008					2007-2008 Biennium		
	Official Forecast	November Forecast	Change	% Growth Over FY 07		Official Forecast	November Forecast	Change
				Official	November			
MAJOR TAX SOURCES								
Corporate Income	\$ 780.4	\$ 794.9	\$ 14.5	(0.9) %	(11.8) %	\$ 1,568.0	\$ 1,696.3	\$ 128.3
Individual Income Tax:								
Gross	11,565.4	11,958.5	393.1	5.4	5.8	22,537.9	23,264.4	726.5
Withholding	8,996.7	9,056.7	60.0	6.0	6.3	17,483.2	17,574.2	91.0
Nonwithholding	2,568.7	2,901.8	333.1	3.3	4.1	5,054.7	5,690.2	635.5
Refunds	<u>(1,376.4)</u>	<u>(1,428.5)</u>	<u>(52.1)</u>	<u>4.1</u>	<u>6.8</u>	<u>(2,698.6)</u>	<u>(2,765.6)</u>	<u>(67.0)</u>
Net	10,189.0	10,530.0	341.0	5.6	5.6	19,839.3	20,498.8	659.5
Insurance Company Premiums	440.2	411.1	(29.1)	5.7	6.9	856.6	795.7	(60.9)
State Sales & Use Tax	3,315.0	3,253.2	(61.8)	5.1	5.3	6,470.0	6,342.7	(127.3)
Wills, Suits, Deeds, & Contract Fees	<u>665.0</u>	<u>554.9</u>	<u>(110.1)</u>	<u>13.1</u>	<u>0.1</u>	<u>1,253.0</u>	<u>1,109.3</u>	<u>(143.7)</u>
Total Major Tax Sources	\$ 15,389.6	\$ 15,544.1	\$ 154.5	5.4 %	4.3 %	\$ 29,986.9	\$ 30,442.8	\$ 455.9
MISCELLANEOUS TAXES AND OTHER REVENUES								
Alcoholic Beverage State Tax	\$ 117.1	\$ 119.0	\$ 1.9	3.7 %	4.0 %	\$ 230.0	\$ 233.4	\$ 3.4
Bank Franchise Tax	11.5	13.3	1.8	2.7	3.1	22.7	26.2	3.5
Beer & Beverage Excise Tax	42.0	44.0	2.0	0.0	0.0	84.0	88.0	4.0
Corporate Franchise & Charter Fees	46.3	46.3	0.0	2.2	2.2	91.6	91.6	0.0
Excess & Other Fees from Officers	(32.0)	(32.0)	0.0	9.9	0.0	(67.5)	(64.0)	3.5
Estate & Gifts	105.0	129.4	24.4	(27.6)	(19.3)	250.0	289.8	39.8
Institutional Revenues	9.2	8.8	(0.4)	0.0	0.0	18.4	17.6	(0.8)
Interest & Rents	185.7	199.4	13.7	2.0	2.3	367.8	394.3	26.5
Licenses & Permits	5.0	5.0	0.0	2.0	2.0	9.9	9.9	0.0
Miscellaneous Taxes and Penalties	253.1	244.5	(8.6)	5.6	12.3	492.8	462.2	(30.6)
Other Miscellaneous Revenues	14.7	34.8	20.1	7.3	2.1	28.4	68.9	40.5
Public Service GR / Consumption Tax	<u>95.1</u>	<u>95.1</u>	<u>0.0</u>	<u>2.5</u>	<u>2.8</u>	<u>187.9</u>	<u>187.6</u>	<u>(0.3)</u>
Total Misc. Taxes and Other Revenues	\$ 852.7	\$ 907.6	\$ 54.9	(1.2) %	1.1 %	\$ 1,716.0	\$ 1,805.5	\$ 89.5
TOTAL GF REVENUES	\$ 16,242.3	\$ 16,451.7	\$ 209.4	5.1 %	4.1 %	\$ 31,702.9	\$ 32,248.3	\$ 545.4
TRANSFERS								
A.B.C. Profits	\$ 29.1	\$ 29.1	\$ 0.0	6.6 %	6.6 %	\$ 56.4	\$ 56.4	\$ 0.0
Lottery Proceeds Fund	426.1	405.4	(20.7)	0.0	0.0	852.2	810.8	(41.4)
Transfers Per Appropriations Act	<u>331.0</u>	<u>331.0</u>	<u>0.0</u>	<u>(4.1)</u>	<u>(4.1)</u>	<u>676.1</u>	<u>676.1</u>	<u>0.0</u>
Total Transfers	\$ 786.2	\$ 765.5	\$ (20.7)	(1.5) %	(1.6) %	\$ 1,584.7	\$ 1,543.3	\$ (41.4)
TOTAL GENERAL FUND	\$ 17,028.5	\$ 17,217.2	\$ 188.7	4.7 %	3.9 %	\$ 33,287.6	\$ 33,791.6	\$ 504.0

The Official forecast is based on the October 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and reflects actions of the 2006 General Assembly, Special Session I.

The November Standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and incorporates recommendations of GABE.

GENERAL FUND REVENUES

Table 3.5
The Official and November Standard General Fund Forecast for Fiscal Year 2009
(Dollars in Millions)

November 6, 2006

	Fiscal Year 2009				
	Official Forecast	November Forecast	Change	% Growth Over FY 08	
				Official	November
MAJOR TAX SOURCES					
Corporate Income	\$ 874.6	\$ 864.4	\$ (10.2)	12.1 %	8.7 %
Individual Income Tax:					
Gross	12,324.9	12,734.0	409.1	6.6	6.5
Withholding	9,628.5	9,605.7	(22.8)	7.0	6.1
Nonwithholding	2,696.4	3,128.3	431.9	5.0	7.8
Refunds	<u>(1,542.6)</u>	<u>(1,509.0)</u>	<u>33.6</u>	<u>12.1</u>	<u>5.6</u>
Net	10,782.3	11,225.0	442.7	5.8	6.6
Insurance Company Premiums	440.2	432.2	(8.0)	0.0	5.1
State Sales & Use Tax	3,470.4	3,435.4	(35.0)	4.7	5.6
Wills, Suits, Deeds, & Contract Fees	<u>685.0</u>	<u>599.3</u>	<u>(85.7)</u>	<u>3.0</u>	<u>8.0</u>
Total Major Tax Sources	\$ 16,252.5	\$ 16,556.3	\$ 303.8	5.6 %	6.5 %
MISCELLANEOUS TAXES AND OTHER REVENUES					
Alcoholic Beverage State Tax	\$ 114.0	\$ 123.8	\$ 9.8	(2.6) %	4.0 %
Bank Franchise Tax	11.5	13.7	2.2	0.0	3.0
Beer & Beverage Excise Tax	42.0	44.0	2.0	0.0	0.0
Corporate Franchise & Charter Fees	46.3	46.3	0.0	0.0	0.0
Excess & Other Fees from Officers	(28.0)	(33.0)	(5.0)	12.5	(3.1)
Estate & Gifts	120.2	0.0	(120.2)	14.5	NA
Institutional Revenues	9.2	8.8	(0.4)	0.0	0.0
Interest & Rents	148.2	190.3	42.1	(20.2)	(4.6)
Licenses & Permits	5.0	5.0	0.0	0.0	0.0
Miscellaneous Taxes and Penalties	267.2	245.3	(21.9)	5.6	0.3
Other Miscellaneous Revenues	13.6	35.6	22.0	(7.5)	2.3
Public Service GR / Consumption Tax	<u>98.0</u>	<u>97.7</u>	<u>(0.3)</u>	<u>3.0</u>	<u>2.7</u>
Total Misc. Taxes and Other Revenues	\$ 847.2	\$ 777.5	\$ (69.7)	(0.7) %	(14.3) %
TOTAL GF REVENUES	\$ 17,099.7	\$ 17,333.8	\$ 234.1	5.3 %	5.4 %
TRANSFERS					
A.B.C. Profits	\$ 24.6	\$ 24.6	\$ 0.0	(15.5) %	(15.5) %
Lottery Proceeds Fund	426.1	405.4	(20.7)	0.0	0.0
Transfers Per Appropriations Act	<u>363.5</u>	<u>363.5</u>	<u>0.0</u>	<u>9.8</u>	<u>9.8</u>
Total Transfers	\$ 814.2	\$ 793.5	\$ (20.7)	3.6 %	3.7 %
TOTAL GENERAL FUND	\$ 17,913.9	\$ 18,127.3	\$ 213.4	5.2 %	5.3 %

The Official forecast is based on the October 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and reflects actions of the 2006 General Assembly, Special Session I.

The November Standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and incorporates recommendations of GABE.

The Virginia Transportation Act of 2000 provides for the transfer and deposit, subject to appropriation, of one-third of the Insurance Premiums tax into the Priority Transportation Trust Fund, established by Section 33.1-23.03.8 of the Code of Virginia (Chapter 1044).

GENERAL FUND REVENUES

Table 3.5
The Official and November Standard General Fund Forecast for Fiscal Year 2010
(Dollars in Millions)

November 6, 2006

	Fiscal Year 2010					2009-2010 Biennium		
	Official Forecast	November Forecast	Change	% Growth Over FY 09		Official Forecast	November Forecast	Change
				Official	November			
MAJOR TAX SOURCES								
Corporate Income	\$ 935.1	\$ 898.1	\$ (37.0)	6.9 %	3.9 %	\$ 1,809.7	\$ 1,762.5	\$ (47.2)
Individual Income Tax:								
Gross	12,999.0	13,513.0	514.0	5.5	6.1	25,323.9	26,247.0	923.1
Withholding	10,143.5	10,165.5	22.0	5.3	5.8	19,772.0	19,771.2	(0.8)
Nonwithholding	2,855.5	3,347.5	492.0	5.9	7.0	5,551.9	6,475.8	923.9
Refunds	<u>(1,621.8)</u>	<u>(1,596.4)</u>	<u>25.4</u>	<u>5.1</u>	<u>5.8</u>	<u>(3,164.4)</u>	<u>(3,105.4)</u>	<u>59.0</u>
Net	11,377.2	11,916.6	539.4	5.5	6.2	22,159.5	23,141.6	982.1
Insurance Company Premiums	440.2	452.4	12.2	0.0	4.7	880.4	884.6	4.2
State Sales & Use Tax	3,624.8	3,620.9	(3.9)	4.4	5.4	7,095.2	7,056.3	(38.9)
Wills, Suits, Deeds, & Contract Fees	<u>685.0</u>	<u>629.3</u>	<u>(55.7)</u>	<u>0.0</u>	<u>5.0</u>	<u>1,370.0</u>	<u>1,228.6</u>	<u>(141.4)</u>
Total Major Tax Sources	\$ 17,062.3	\$ 17,517.3	\$ 455.0	5.0 %	5.8 %	\$ 33,314.8	\$ 34,073.6	\$ 758.8
MISCELLANEOUS TAXES AND OTHER REVENUES								
Alcoholic Beverage State Tax	\$ 118.5	\$ 128.7	\$ 10.2	3.9 %	4.0 %	\$ 232.5	\$ 252.5	\$ 20.0
Bank Franchise Tax	11.5	14.1	2.6	0.0	2.9	23.0	27.8	4.8
Beer & Beverage Excise Tax	42.0	44.0	2.0	0.0	0.0	84.0	88.0	4.0
Corporate Franchise & Charter Fees	46.3	46.3	0.0	0.0	0.0	92.6	92.6	0.0
Excess & Other Fees from Officers	(28.0)	(33.0)	(5.0)	0.0	0.0	(56.0)	(66.0)	(10.0)
Estate & Gifts	120.2	0.0	(120.2)	0.0	NA	240.4	0.0	(240.4)
Institutional Revenues	9.2	8.8	(0.4)	0.0	0.0	18.4	17.6	(0.8)
Interest & Rents	148.2	190.3	42.1	0.0	0.0	296.4	380.6	84.2
Licenses & Permits	5.0	5.0	0.0	0.0	0.0	10.0	10.0	0.0
Miscellaneous Taxes and Penalties	267.7	246.2	(21.5)	0.2	0.4	534.9	491.5	(43.4)
Other Miscellaneous Revenues	13.6	36.3	22.7	0.0	2.0	27.2	71.9	44.7
Public Service GR / Consumption Tax	<u>100.9</u>	<u>100.5</u>	<u>(0.4)</u>	<u>3.0</u>	<u>2.9</u>	<u>198.8</u>	<u>198.2</u>	<u>(0.6)</u>
Total Misc. Taxes and Other Revenues	\$ 855.1	\$ 787.2	\$ (67.9)	0.9 %	1.2 %	\$ 1,702.2	\$ 1,564.7	\$ (137.5)
TOTAL GF REVENUES	\$ 17,917.4	\$ 18,304.5	\$ 387.1	4.8 %	5.6 %	\$ 35,017.0	\$ 35,638.3	\$ 621.3
TRANSFERS								
A.B.C. Profits	\$ 24.6	\$ 24.6	\$ 0.0	0.0 %	0.0 %	\$ 49.2	\$ 49.2	\$ 0.0
Lottery Proceeds Fund	426.1	405.4	(20.7)	0.0	0.0	852.2	810.8	(41.4)
Transfers Per Appropriations Act	<u>375.3</u>	<u>375.3</u>	<u>0.0</u>	<u>3.2</u>	<u>3.2</u>	<u>738.8</u>	<u>738.8</u>	<u>0.0</u>
Total Transfers	\$ 826.0	\$ 805.3	\$ (20.7)	1.4 %	1.5 %	\$ 1,640.2	\$ 1,598.8	\$ (41.4)
TOTAL GENERAL FUND	\$ 18,743.4	\$ 19,109.8	\$ 366.4	4.6 %	5.4 %	\$ 36,657.2	\$ 37,237.1	\$ 579.9

The Official forecast is based on the October 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and reflects actions of the 2006 General Assembly, Special Session I.

The November Standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and incorporates recommendations of GABE.

The Virginia Transportation Act of 2000 provides for the transfer and deposit, subject to appropriation, of one-third of the Insurance Premiums tax into the Priority Transportation Trust Fund, established by Section 33.1-23.03.8 of the Code of Virginia (Chapter 1044).

Withholding

In the November standard forecast, withholding receipts were revised upward by \$31.0 million in fiscal year 2007 and \$60.0 million in fiscal year 2008. The revised outlook reflects expectations for slightly stronger growth in wages and salaries income and continued gains in high-paying professional and business services jobs in Northern Virginia. Although federal spending is projected to slow, many of the contracts issued over the last few years will support growth over the forecast horizon. Withholding collections grew 4.0 percent in the first quarter of fiscal year 2007.

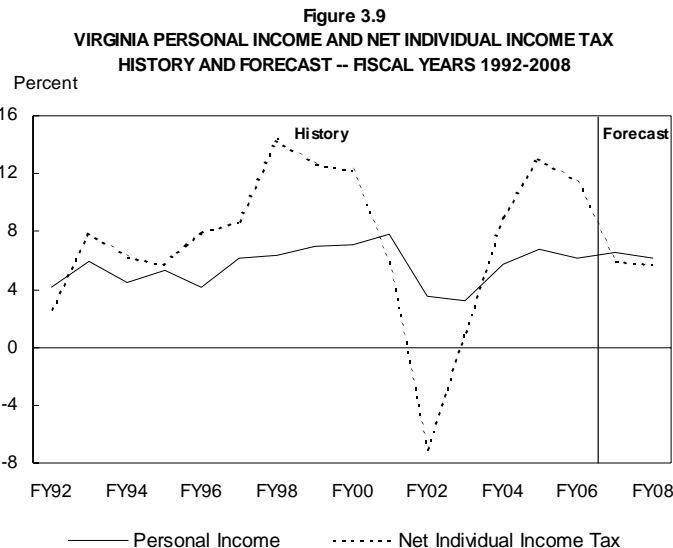
Growth in withholding receipts for fiscal year 2007 was revised from 5.3 percent in last year's official forecast to 5.7 percent in the November forecast. Growth in fiscal year 2008 is expected to be 6.3 percent versus last year's official forecast of 6.0 percent growth.

Refunds

In the November forecast, individual refunds have been revised up in each fiscal year from last year's official estimate. Growth in fiscal year 2007 has been revised from 3.1 percent to 4.2 percent. Growth for fiscal year 2008 is projected to be 6.8 percent, ahead of the 4.1 percent growth contained in last year's official estimate.

Nonwithholding

Nonwithholding receipts are comprised of quarterly individual estimated payments and an annual final payment. They are dependent on capital gains realizations, business income, pension income, interest income, dividends, and self-employment income. These income sources tend to be concentrated among higher-income taxpayers and are extremely volatile. The chart below illustrates the volatile nature of nonwithholding payments, comparing growth in Virginia personal income with growth in net individual income tax collections.



GENERAL FUND REVENUES

The volatility in net individual income tax growth can be directly traced to nonwithholding. The major variations between growth in personal income and net individual income taxes are indicative of wide swings in collections of nonwithholding. They represent both the good and bad of “April surprises”, in which payments either exceed expectations by great margins or plummet far below predictions. The period from fiscal year 1995 through fiscal year 1999 not only represented some of the best economic conditions in a generation, but also illustrated the “dot.com” boom in Virginia. The period from fiscal year 2001 through fiscal year 2002 displays both the economic recession and the “dot.com” bust. The volatile nature of nonwithholding collections is a major challenge to developing sound estimates of future receipts.

The November forecast for nonwithholding has been revised substantially to reflect both the strong collections in fiscal year 2006 and the healthy performance through the first quarter of fiscal year 2007. Growth in fiscal year 2007 is expected to be 10.2 percent, in line with the current performance of stock market indices and non-wage income. Fiscal year 2008 has been revised from 3.3 percent growth to 4.1 percent growth.

Corporate Income Taxes

Corporate income taxes represent the most volatile revenue source in Virginia. Collections over the last four fiscal years have increased at a double-digit pace, including growth of 44.9 percent and 41.3 percent in fiscal years 2005 and 2006, respectively. This follows two years of double-digit declines. A combination of strong productivity growth and low unit labor costs have allowed firms to build cash holdings, leading to high taxable corporate profits.

The November forecast increases growth in corporate receipts from a 9.6 percent decline to 3.4 growth in fiscal year 2007 -- \$113.8 million above last year’s official estimate. Corporate income tax collections are projected to decline by 11.8 percent in fiscal year 2008 as home builders, construction supply companies, and mortgage bankers reduce tax payments and request refunds. Despite the decline, the November standard forecast is \$14.5 million above the official estimate in fiscal year 2008.

Sales and Use Taxes

The forecast for collections of sales and use taxes was modified slightly from last year’s official estimate. Sales tax collections are expected to increase by 9.8 percent in fiscal year 2007, compared with last year’s forecast of 12.2 percent growth. The sharp increase in fiscal year 2007 is driven by the elimination of the Accelerated Sales Tax program in fiscal year 2006. Adjusted for this program, underlying economic-base sales tax growth is 4.1 percent in fiscal year 2007.

The outlook for fiscal year 2007 is based on a slowdown in consumer spending due to the declining housing market. Based on the concerns of GABE members regarding the housing industry and an analysis of first quarter collections, model results were reduced. The model growth rate of 5.5 percent would suggest a marginal increase in collections of about \$160 million in FY07. Based on prior years, housing-related taxable sales account for 25 to 30 percent of total taxable sales. In order to reflect the slowdown in housing, the annual marginal increase was reduced by 25 percent, yielding the new growth rate of 4.1 percent. Collections in fiscal year 2008 are projected to increase by 5.3 percent versus last year's official forecast of 5.1 percent growth. Overall, the changes to the sales tax forecast result in a two-year reduction of \$127.3 million.

Wills, Suits, Deeds, and Contract Fees

Most of the revenue in this source is derived from taxes levied on the recordation of real estate transactions. Recordation tax revenues have experienced average annual growth of 20 percent over the last six years with the boom in the housing market. With the housing market bust, recordation tax collections fell 26 percent in the first quarter of fiscal year 2007.

Last year's official forecast for wills, suits, deeds, and contract fees predicted collections would fall by 15.4 percent in fiscal year 2007. The November forecast projects a decline of 20.2 percent in fiscal year 2007. Collections are expected to remain flat with fiscal year 2007 levels in fiscal year 2008. The change to the forecast for wills, suits, deeds, and contract fees reduces revenues a combined \$143.7 million for fiscal year 2007 and 2008.

Insurance Premiums Tax

In the November forecast, the estimate for the tax on insurance premiums has been revised downward over the forecast horizon. Growth in this source is expected to be 2.9 percent in fiscal year 2007 and 6.9 percent in fiscal year 2008.

Miscellaneous Taxes and Other Revenue

Public Service Gross Receipts / Consumption Tax

The November forecast for collections in this source was changed from growth of 3.1 percent in fiscal year 2007 to an increase of 2.8 percent. Growth in fiscal year 2008 is projected to be 2.8, slightly above last year's official estimate of 2.5 percent growth.

GENERAL FUND REVENUES

Estate and Gift Taxes

The November forecast for estate and gift taxes has been raised slightly from last year's official outlook. Collections are projected to be level with last year, then decline 19.3 percent in fiscal year 2008 with the partial year impact from the repeal of the estate tax. As of fiscal year 2009, the estate tax will be fully eliminated. Overall, projected revenues have been increased a combined \$39.8 million over the next two fiscal years.

Interest Income

Interest income is determined by investible balances and the composite yield on investments in the General Account. Table 3.6 below shows actual collections for fiscal year 2006 and the official and November forecast for fiscal years 2007 and 2008. Over the next two years, balances have been revised upward in line with favorable current trends and the healthy outlook for general fund revenues.

Table 3.6
Interest Revenue Forecast -- Treasury
(millions of dollars)

	<u>FY 2006</u>	<u>FY 2007</u>		<u>FY 2008</u>	
	<u>Actual</u>	<u>Official Forecast</u>	<u>November Forecast</u>	<u>Official Forecast</u>	<u>November Forecast</u>
Investible Balances (millions \$)	5,836.0	5,889.2	7,150.7	6,052.3	6,500.0
Balances Retaining Interest in GF	3,093.1	2,944.6	3,646.9	2,844.6	3,315.0
Non-General Funds	2,742.9	2,944.6	3,503.8	3,207.7	3,185.0
Collected Yield (%)	3.62%	3.78%	5.20%	4.28%	5.10%
Interest Income	211.3	222.6	371.8	259.0	331.5
Transfers and Fees					
Non-General Funds	99.3	111.3	182.2	137.3	162.4
Net General Funds Income					
General Funds	112.0	111.3	189.6	121.7	169.1
2006 GA Actions		30.5		28.7	
Total GF Interest Income	<u>112.0</u>	<u>141.8</u>	<u>189.6</u>	<u>150.4</u>	<u>169.1</u>

Along with interest on delinquent taxes (projected to total \$5.0 million in fiscal year 2007 and \$30.0 million in fiscal year 2008), total general fund interest income is expected to be \$194.6 million in fiscal year 2007, \$12.8 million above the official forecast, and \$199.1 million in fiscal year 2008, \$13.7 million above the official forecast.

Legislative Changes Affecting the Forecast

Table 3.7 below lists the legislative and policy changes that affect the revenue forecast.

**Table 3.7
SUMMARY OF RECENT LEGISLATION AFFECTING
GENERAL FUND REVENUES
(MILLIONS OF DOLLARS)**

	FY07	FY08	FY09	FY10
INDIVIDUAL INCOME TAX				
C. 951, 2005 - Correct Public Employee Subtraction	0.8	0.8	0.8	0.8
C. 951, 2005 - Require Appraisal to Claim Land Preservation Tax Credit	5.0	5.0	5.0	5.0
C. 3, 2006 - Cap Land Preservation Tax Credit		25.0	25.0	25.0
C. 3, 2006 - Credit for Purchase of Long-Term Care Insurance	(4.9)	(5.2)	(5.7)	(6.2)
C. 3, 2006 - Neighborhood Assistance to \$12 Million		(3.0)	(3.0)	(3.0)
C. 3, 2006 - Advance Federal Conformity Date	(0.2)	(0.2)	(0.4)	(0.6)
C. 3, 2006 - Deduction for Tobacco Quota	(0.2)	(0.1)	(0.2)	(0.2)
	0.5	22.3	21.5	20.8
CORPORATE INCOME TAX				
C. 951, 2005 - Escrow Payments by NPMs	(0.5)	(0.5)	(0.5)	(0.5)
C. 951, 2005 - Enterprise Zone Grants	11.5	11.5	11.5	11.5
C. 3, 2006 - Allow Coal Tax Credit Allocation Between Purchasers & Sellers	(14.5)	(14.5)		
C. 3, 2006 - Deduction for Tobacco Quota	(1.0)	(0.8)	(1.4)	(1.4)
C. 3, 2006 - Neighborhood Assistance to \$12 Million		(1.0)	(1.0)	(1.0)
STATE SALES AND USE TAX				
C. 951, 2005 - Sales Tax on Auto Refinishing	0.8	0.8	0.8	0.8
C. 3, 2006 - Back to School Sales Tax Holiday	(2.5)	(2.6)	(2.8)	(2.8)
C. 3, 2006 - Exemption for Medicines Sold to Veterinarians	(0.1)	(0.1)	(0.1)	(0.1)
ESTATE TAXES				
C. 3, 2006 - Repeal Estate Tax		(35.0)	(105.0)	(120.0)
INTEREST				
C. 951, 2005 - Investment in Lower Grade Debt	0.8	0.8		
C. 3, 2006 - Interest on Sponsored Programs Higher Education	7.8	8.8		

The Alternative Forecast

Table 3.8 on the following pages compares last year's official and the November alternative low-growth general fund forecasts. In the November alternative revenue forecast, total general fund revenues are expected to be \$91.1 million higher than last year's official forecast in fiscal year 2007 and \$239.5 million lower in fiscal year 2008.

GENERAL FUND REVENUES

Table 3.8
The Official and November Alternative Low Growth General Fund Forecast for Fiscal Year 2007
(Dollars in Millions)

November 6, 2006

	Fiscal Year 2006		Fiscal Year 2007				% Growth Over FY 06	
	Actual	% Growth	Official Forecast	November Forecast	Change	Official	November	
MAJOR TAX SOURCES								
Corporate Income	\$ 871.6	41.3 %	\$ 787.6	\$ 857.6	\$ 70.0	(9.6) %	(1.6) %	
Individual Income Tax:								
Gross	10,591.2	10.5	10,972.5	11,137.2	164.7	3.6	5.2	
Withholding	8,061.0	7.3	8,486.5	8,487.6	1.1	5.3	5.3	
Nonwithholding	2,530.2	22.0	2,486.0	2,649.6	163.6	(1.7)	4.7	
Refunds	<u>(1,282.6)</u>	<u>3.9</u>	<u>(1,322.2)</u>	<u>(1,336.8)</u>	<u>(14.6)</u>	<u>3.1</u>	<u>4.2</u>	
Net	9,308.6	11.4	9,650.3	9,800.4	150.1	3.7	5.3	
Insurance Company Premiums	373.8	0.1	416.4	384.6	(31.8)	11.4	2.9	
State Sales & Use Tax	2,812.7	(4.5)	3,155.0	3,056.8	(98.2)	12.2	8.7	
Wills, Suits, Deeds, & Contract Fees	<u>694.7</u>	<u>16.6</u>	<u>588.0</u>	<u>554.4</u>	<u>(33.6)</u>	<u>(15.4)</u>	<u>(20.2)</u>	
Total Major Tax Sources	\$ 14,061.4	9.1 %	\$ 14,597.3	\$ 14,653.8	\$ 56.5	3.8 %	4.2 %	
MISCELLANEOUS TAXES AND OTHER REVENUES								
Alcoholic Beverage State Tax	\$ 110.0	7.1 %	\$ 112.9	\$ 114.4	\$ 1.5	2.6 %	4.0 %	
Bank Franchise Tax	12.3	16.3	11.2	12.9	1.7	(9.1)	4.7	
Beer & Beverage Excise Tax	42.9	2.8	42.0	44.0	2.0	(2.2)	2.5	
Corporate Franchise & Charter Fees	46.4	7.7	45.3	45.3	0.0	(2.3)	(2.3)	
Excess & Other Fees from Officers	(41.6)	(9.7)	(35.5)	(32.0)	3.5	14.6	23.1	
Estate & Gifts	160.4	7.0	145.0	160.4	15.4	(9.6)	(0.0)	
Institutional Revenues	8.2	(10.5)	9.2	8.8	(0.4)	11.7	6.9	
Interest & Rents	97.1	15.4	182.1	194.9	12.8	87.5	100.7	
Licenses & Permits	4.8	2.6	4.9	4.9	0.0	2.8	2.8	
Miscellaneous Taxes and Penalties	202.1	(19.3)	239.7	217.7	(22.0)	18.6	7.7	
Other Miscellaneous Revenues	40.2	(27.8)	13.7	34.1	20.4	(65.9)	(15.2)	
Public Service GR / Consumption Tax	<u>90.0</u>	<u>1.9</u>	<u>92.8</u>	<u>92.5</u>	<u>(0.3)</u>	<u>3.1</u>	<u>2.8</u>	
Total Misc. Taxes and Other Revenues	\$ 772.9	(3.7) %	\$ 863.3	\$ 897.9	\$ 34.6	11.7 %	16.2 %	
TOTAL GF REVENUES	\$ 14,834.3	8.4 %	\$ 15,460.6	\$ 15,551.7	\$ 91.1	4.2 %	4.8 %	
TRANSFERS								
A.B.C. Profits	\$ 30.0	20.7 %	\$ 27.3	\$ 27.3	\$ 0.0	(9.1) %	(9.1) %	
Lottery Proceeds Fund	454.0	7.2	426.1	405.4	(20.7)	(6.1)	(10.7)	
Transfers Per Appropriations Act	<u>381.6</u>	<u>31.1</u>	<u>345.1</u>	<u>345.1</u>	<u>0.0</u>	<u>(9.6)</u>	<u>(9.6)</u>	
Total Transfers	\$ 865.7	17.1 %	\$ 798.5	\$ 777.8	\$ (20.7)	(7.8) %	(10.1) %	
TOTAL GENERAL FUND	\$ 15,700.0	8.8 %	\$ 16,259.1	\$ 16,329.5	\$ 70.4	3.6 %	4.0 %	

The Official forecast is based on the October 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and reflects actions of the 2006 General Assembly, Special Session I.

The November Alternative Low Growth forecast is based on the October 2006 Global Insight Alternative Low Growth outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

GENERAL FUND REVENUES

Table 3.8
The Official and November Alternative Low Growth General Fund Forecast for Fiscal Year 2008
(Dollars in Millions)

November 6, 2006

	Fiscal Year 2008					2007-2008 Biennium		
	Official Forecast	November Forecast	Change	% Growth Over FY 07 Official November		Official Forecast	November Forecast	Change
MAJOR TAX SOURCES								
Corporate Income	\$ 780.4	\$ 707.3	\$ (73.1)	(0.9) %	(17.5) %	\$ 1,568.0	\$ 1,564.9	\$ (3.1)
Individual Income Tax:								
Gross	11,565.4	11,631.7	66.3	5.4	4.4	22,537.9	22,768.9	231.0
Withholding	8,996.7	9,026.7	30.0	6.0	6.4	17,483.2	17,514.3	31.1
Nonwithholding	2,568.7	2,605.0	36.3	3.3	(1.7)	5,054.7	5,254.6	199.9
Refunds	<u>(1,376.4)</u>	<u>(1,428.7)</u>	<u>(52.3)</u>	<u>4.1</u>	<u>6.9</u>	<u>(2,698.6)</u>	<u>(2,765.5)</u>	<u>(66.9)</u>
Net	10,189.0	10,203.0	14.0	5.6	4.1	19,839.3	20,003.4	164.1
Insurance Company Premiums	440.2	411.1	(29.1)	5.7	6.9	856.6	795.7	(60.9)
State Sales & Use Tax	3,315.0	3,218.9	(96.1)	5.1	5.3	6,470.0	6,275.7	(194.3)
Wills, Suits, Deeds, & Contract Fees	<u>665.0</u>	<u>554.9</u>	<u>(110.1)</u>	<u>13.1</u>	<u>0.1</u>	<u>1,253.0</u>	<u>1,109.3</u>	<u>(143.7)</u>
Total Major Tax Sources	\$ 15,389.6	\$ 15,095.2	\$ (294.4)	5.4 %	3.0 %	\$ 29,986.9	\$ 29,749.0	\$ (237.9)
MISCELLANEOUS TAXES AND OTHER REVENUES								
Alcoholic Beverage State Tax	\$ 117.1	\$ 119.0	\$ 1.9	3.7 %	4.0 %	\$ 230.0	\$ 233.4	\$ 3.4
Bank Franchise Tax	11.5	13.3	1.8	2.7	3.1	22.7	26.2	3.5
Beer & Beverage Excise Tax	42.0	44.0	2.0	0.0	0.0	84.0	88.0	4.0
Corporate Franchise & Charter Fees	46.3	46.3	0.0	2.2	2.2	91.6	91.6	0.0
Excess & Other Fees from Officers	(32.0)	(32.0)	0.0	9.9	0.0	(67.5)	(64.0)	3.5
Estate & Gifts	105.0	129.4	24.4	(27.6)	(19.3)	250.0	289.8	39.8
Institutional Revenues	9.2	8.8	(0.4)	0.0	0.0	18.4	17.6	(0.8)
Interest & Rents	185.7	199.4	13.7	2.0	2.3	367.8	394.3	26.5
Licenses & Permits	5.0	5.0	0.0	2.0	2.0	9.9	9.9	0.0
Miscellaneous Taxes and Penalties	253.1	244.5	(8.6)	5.6	12.3	492.8	462.2	(30.6)
Other Miscellaneous Revenues	14.7	34.8	20.1	7.3	2.1	28.4	68.9	40.5
Public Service GR / Consumption Tax	<u>95.1</u>	<u>95.1</u>	<u>0.0</u>	<u>2.5</u>	<u>2.8</u>	<u>187.9</u>	<u>187.6</u>	<u>(0.3)</u>
Total Misc. Taxes and Other Revenues	\$ 852.7	\$ 907.6	\$ 54.9	(1.2) %	1.1 %	\$ 1,716.0	\$ 1,805.5	\$ 89.5
TOTAL GF REVENUES	\$ 16,242.3	\$ 16,002.8	\$ (239.5)	5.1 %	2.9 %	\$ 31,702.9	\$ 31,554.5	\$ (148.4)
TRANSFERS								
A.B.C. Profits	\$ 29.1	\$ 29.1	\$ 0.0	6.6 %	6.6 %	\$ 56.4	\$ 56.4	\$ 0.0
Lottery Proceeds Fund	426.1	405.4	(20.7)	0.0	0.0	852.2	810.8	(41.4)
Transfers Per Appropriations Act	<u>331.0</u>	<u>331.0</u>	<u>0.0</u>	<u>(4.1)</u>	<u>(4.1)</u>	<u>676.1</u>	<u>676.1</u>	<u>0.0</u>
Total Transfers	\$ 786.2	\$ 765.5	\$ (20.7)	(1.5) %	(1.6) %	\$ 1,584.7	\$ 1,543.3	\$ (41.4)
TOTAL GENERAL FUND	\$ 17,028.5	\$ 16,768.3	\$ (260.2)	4.7 %	2.7 %	\$ 33,287.6	\$ 33,097.8	\$ (189.8)

The Official forecast is based on the October 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and reflects actions of the 2006 General Assembly, Special Session I.

The November Alternative Low Growth forecast is based on the October 2006 Global Insight Alternative Low Growth outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

GENERAL FUND REVENUES

Table 3.8
The Official and November Alternative Low Growth General Fund Forecast for Fiscal Year 2009
(Dollars in Millions) November 6, 2006

	Fiscal Year 2009			% Growth Over FY 08	
	Official Forecast	November Forecast	Change	Official	November
MAJOR TAX SOURCES					
Corporate Income	\$ 874.6	\$ 776.8	\$ (97.8)	12.1 %	9.8 %
Individual Income Tax:					
Gross	12,324.9	12,268.7	(56.2)	6.6	5.5
Withholding	9,628.5	9,568.7	(59.8)	7.0	6.0
Nonwithholding	2,696.4	2,700.0	3.6	5.0	3.6
Refunds	<u>(1,542.6)</u>	<u>(1,510.6)</u>	<u>32.0</u>	<u>12.1</u>	<u>5.7</u>
Net	10,782.3	10,758.1	(24.2)	5.8	5.4
Insurance Company Premiums	440.2	432.2	(8.0)	0.0	5.1
State Sales & Use Tax	3,470.4	3,399.1	(71.3)	4.7	5.6
Wills, Suits, Deeds, & Contract Fees	<u>685.0</u>	<u>599.3</u>	<u>(85.7)</u>	<u>3.0</u>	<u>8.0</u>
Total Major Tax Sources	\$ 16,252.5	\$ 15,965.5	\$ (287.0)	5.6 %	5.8 %
MISCELLANEOUS TAXES AND OTHER REVENUES					
Alcoholic Beverage State Tax	\$ 114.0	\$ 123.8	\$ 9.8	(2.6) %	4.0 %
Bank Franchise Tax	11.5	13.7	2.2	0.0	3.0
Beer & Beverage Excise Tax	42.0	44.0	2.0	0.0	0.0
Corporate Franchise & Charter Fees	46.3	46.3	0.0	0.0	0.0
Excess & Other Fees from Officers	(28.0)	(33.0)	(5.0)	12.5	(3.1)
Estate & Gifts	120.2	0.0	(120.2)	14.5	NA
Institutional Revenues	9.2	8.8	(0.4)	0.0	0.0
Interest & Rents	148.2	190.3	42.1	(20.2)	(4.6)
Licenses & Permits	5.0	5.0	0.0	0.0	0.0
Miscellaneous Taxes and Penalties	267.2	245.3	(21.9)	5.6	0.3
Other Miscellaneous Revenues	13.6	35.6	22.0	(7.5)	2.3
Public Service GR / Consumption Tax	<u>98.0</u>	<u>97.7</u>	<u>(0.3)</u>	<u>3.0</u>	<u>2.7</u>
Total Misc. Taxes and Other Revenues	\$ 847.2	\$ 777.5	\$ (69.7)	(0.7) %	(14.3) %
TOTAL GF REVENUES	\$ 17,099.7	\$ 16,743.0	\$ (356.7)	5.3 %	4.6 %
TRANSFERS					
A.B.C. Profits	\$ 24.6	\$ 24.6	\$ 0.0	(15.5) %	(15.5) %
Lottery Proceeds Fund	426.1	405.4	(20.7)	0.0	0.0
Transfers Per Appropriations Act	<u>363.5</u>	<u>363.5</u>	<u>0.0</u>	<u>9.8</u>	<u>9.8</u>
Total Transfers	\$ 814.2	\$ 793.5	\$ (20.7)	3.6 %	3.7 %
TOTAL GENERAL FUND	\$ 17,913.9	\$ 17,536.5	\$ (377.4)	5.2 %	4.6 %

The Official forecast is based on the October 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and reflects actions of the 2006 General Assembly, Special Session I.

The November Alternative Low Growth forecast is based on the October 2006 Global Insight Alternative Low Growth outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

The Virginia Transportation Act of 2000 provides for the transfer and deposit, subject to appropriation, of one-third of the Insurance Premiums tax into the Priority Transportation Trust Fund, established by Section 33.1-23.03.8 of the Code of Virginia (Chapter 1044).

GENERAL FUND REVENUES

Table 3.8
The Official and November Alternative Low Growth General Fund Forecast for Fiscal Year 2010
(Dollars in Millions)

November 6, 2006

	Fiscal Year 2010				2009-2010 Biennium			
	Official Forecast	November Forecast	Change	% Growth Over FY 09		Official Forecast	November Forecast	Change
				Official	November			
MAJOR TAX SOURCES								
Corporate Income	\$ 935.1	\$ 810.5	\$ (124.6)	6.9 %	4.3 %	\$ 1,809.7	\$ 1,587.3	\$ (222.4)
Individual Income Tax:								
Gross	12,999.0	13,085.3	86.3	5.5	6.7	25,323.9	25,354.0	30.1
Withholding	10,143.5	10,158.7	15.2	5.3	6.2	19,772.0	19,727.4	(44.6)
Nonwithholding	2,855.5	2,926.6	71.1	5.9	8.4	5,551.9	5,626.6	74.7
Refunds	<u>(1,621.8)</u>	<u>(1,600.1)</u>	<u>21.7</u>	<u>5.1</u>	<u>5.9</u>	<u>(3,164.4)</u>	<u>(3,110.7)</u>	<u>53.7</u>
Net	11,377.2	11,485.2	108.0	5.5	6.8	22,159.5	22,243.3	83.8
Insurance Company Premiums	440.2	452.4	12.2	0.0	4.7	880.4	884.6	4.2
State Sales & Use Tax	3,624.8	3,582.7	(42.1)	4.4	5.4	7,095.2	6,981.8	(113.4)
Wills, Suits, Deeds, & Contract Fees	<u>685.0</u>	<u>629.3</u>	<u>(55.7)</u>	<u>0.0</u>	<u>5.0</u>	<u>1,370.0</u>	<u>1,228.6</u>	<u>(141.4)</u>
Total Major Tax Sources	\$ 17,062.3	\$ 16,960.1	\$ (102.2)	5.0 %	6.2 %	\$ 33,314.8	\$ 32,925.6	\$ (389.2)
MISCELLANEOUS TAXES AND OTHER REVENUES								
Alcoholic Beverage State Tax	\$ 118.5	\$ 128.7	\$ 10.2	3.9 %	4.0 %	\$ 232.5	\$ 252.5	\$ 20.0
Bank Franchise Tax	11.5	14.1	2.6	0.0	2.9	23.0	27.8	4.8
Beer & Beverage Excise Tax	42.0	44.0	2.0	0.0	0.0	84.0	88.0	4.0
Corporate Franchise & Charter Fees	46.3	46.3	0.0	0.0	0.0	92.6	92.6	0.0
Excess & Other Fees from Officers	(28.0)	(33.0)	(5.0)	0.0	0.0	(56.0)	(66.0)	(10.0)
Estate & Gifts	120.2	0.0	(120.2)	0.0	NA	240.4	0.0	(240.4)
Institutional Revenues	9.2	8.8	(0.4)	0.0	0.0	18.4	17.6	(0.8)
Interest & Rents	148.2	190.3	42.1	0.0	0.0	296.4	380.6	84.2
Licenses & Permits	5.0	5.0	0.0	0.0	0.0	10.0	10.0	0.0
Miscellaneous Taxes and Penalties	267.7	246.2	(21.5)	0.2	0.4	534.9	491.5	(43.4)
Other Miscellaneous Revenues	13.6	36.3	22.7	0.0	2.0	27.2	71.9	44.7
Public Service GR / Consumption Tax	<u>100.9</u>	<u>100.5</u>	<u>(0.4)</u>	<u>3.0</u>	<u>2.9</u>	<u>198.8</u>	<u>198.2</u>	<u>(0.6)</u>
Total Misc. Taxes and Other Revenues	\$ 855.1	\$ 787.2	\$ (67.9)	0.9 %	1.2 %	\$ 1,702.2	\$ 1,564.7	\$ (137.5)
TOTAL GF REVENUES	\$ 17,917.4	\$ 17,747.3	\$ (170.1)	4.8 %	6.0 %	\$ 35,017.0	\$ 34,490.3	\$ (526.7)
TRANSFERS								
A.B.C. Profits	\$ 24.6	\$ 24.6	\$ 0.0	0.0 %	0.0 %	\$ 49.2	\$ 49.2	\$ 0.0
Lottery Proceeds Fund	426.1	405.4	(20.7)	0.0	0.0	852.2	810.8	(41.4)
Transfers Per Appropriations Act	<u>375.3</u>	<u>375.3</u>	<u>0.0</u>	<u>3.2</u>	<u>3.2</u>	<u>738.8</u>	<u>738.8</u>	<u>0.0</u>
Total Transfers	\$ 826.0	\$ 805.3	\$ (20.7)	1.4 %	1.5 %	\$ 1,640.2	\$ 1,598.8	\$ (41.4)
TOTAL GENERAL FUND	\$ 18,743.4	\$ 18,552.6	\$ (190.8)	4.6 %	5.8 %	\$ 36,657.2	\$ 36,089.1	\$ (568.1)

The Official forecast is based on the October 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and reflects actions of the 2006 General Assembly, Special Session I.

The November Alternative Low Growth forecast is based on the October 2006 Global Insight Alternative Low Growth outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

The Virginia Transportation Act of 2000 provides for the transfer and deposit, subject to appropriation, of one-third of the Insurance Premiums tax into the Priority Transportation Trust Fund, established by Section 33.1-23.03.8 of the Code of Virginia (Chapter 1044).

**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 tax, 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 Fuels Tax revenues which are derived from the implementation of new procedures for taxing motor fuel at the terminal rack, insurance premiums, and interest payments. It is used for highway projects explicitly listed in the legislation that created the fund.

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

- Motor Fuels and Road Use Taxes,
- 3 percent Vehicle Sales and Use Tax,
- licensing fees,
- one-half cent State Retail Sales Tax,
- International Registration Plan Fees,
- interest earnings, and
- other miscellaneous taxes and fees.

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

NON-GENERAL FUND REVENUES

Fiscal Year 2006 In Review

Table 4.1 compares actual collections in fiscal year 2006 to the official forecast for the two transportation funds combined. Total transportation revenues amounted to approximately \$2.3 billion, an increase of \$92.0 million over last year (although close to \$23 million of the increased amount was the fiscal year 2006 addition of the Rail Enhancement Fund to transportation trust fund collections). Total collections ended \$42.5 million above the official forecast, a variance of 1.9 percent.

Table 4.1
Commonwealth Transportation Revenues
Actual Collections Compared to the Official Forecast for Fiscal Year 2006
(Millions of Dollars)

Revenue Sources	FY2005 Actual	FY2006 Actual	FY2006 Forecast	Percent Change 2005-2006		Forecast Variance	
				Actual	Forecast	Amount	Percent
Motor Fuels Tax	\$ 842.5	\$ 861.5	\$ 841.2	2.3%	-0.2%	\$ 20.3	2.4%
Road Use Tax	4.8	5.7	2.6	0.0%	-45.8%	3.1	119.2%
Vehicle Sales Tax	608.2	598.5	608.0	-1.6%	0.0%	(9.5)	-1.6%
Vehicle Licenses	164.5	169.3	169.2	2.9%	2.9%	0.1	0.1%
State Sales Tax	449.9	476.3	474.9	5.9%	5.6%	1.4	0.3%
Priority Transportation Fund	20.0	20.0	20.0	0.0%	0.0%	-	0.0%
Int'l Registration Plan	60.7	60.6	58.6	-0.2%	-3.5%	2.0	3.4%
Interest Earnings	17.6	38.6	25.7	118.8%	45.7%	12.9	50.2%
Rental Tax	7.0	30.2	28.5	331.9%	307.8%	1.7	5.9%
Aviation Fuels Tax	2.2	3.2	2.0	45.3%	-7.4%	1.2	56.9%
Miscellaneous	26.5	32.0	22.6	20.9%	-14.4%	9.4	41.3%
TOTAL	\$ 2,203.9	\$ 2,295.9	\$ 2,253.4	4.2%	2.2%	\$ 42.5	1.9%

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.

Fiscal year 2006 growth of 4.2 percent in Commonwealth Transportation Fund (CTF) revenues was slightly above the 10-year average growth rate of 3.9 percent; however, adjusting for the additional funds from the aforementioned Rail Enhancement Fund and one-time revenue infusions from Interest Earnings and Miscellaneous, fiscal year 2006 growth was below the 10-year average for the second year in a row.

The fiscal year 2006 revenue surplus can be attributed to stronger than expected growth in motor fuels tax collections and one-time collections in interest earnings and miscellaneous revenues. Most of the other major revenue sources performed close to expectations.

Revenues from motor fuels taxes (37 percent of the CTF) exceeded the forecast by \$20.3 million in fiscal year 2006. Even though the average price of gasoline increased by 29 percent in fiscal year 2006, consumption did not suffer a significant decline. Also, motor fuels tax collections have a two-month lag between transaction and tax remittance; therefore, fiscal year 2006 collections include a quarter of revenues based on pre-Katrina prices. In the short-term, gasoline demand is relatively inelastic. However, as prices remain elevated, consumers do adjust their consumption patterns and the impact of high prices on demand is expected to become more evident over the coming years.

Revenues from the motor vehicle sales and use tax (27 percent of the CTF) fell by 1.6 percent in fiscal year 2006. The official forecast anticipated a slowdown in the sale of new and used vehicles in fiscal year 2006 along with declining new vehicle prices due to the switch from higher cost, gas-guzzling vehicles to lower cost, fuel efficient models. Sales of both new and used vehicles did decline in fiscal year 2006 and new vehicle prices fell more than expected. Record high energy prices, rising interest rates, and the effects of years of incentive-induced buying could signal turbulent times in the automotive sector.

Revenues from the transportation share of the state retail sales tax (21 percent of the CTF) increased by 5.9 percent, exceeding the forecast by \$1.4 million. The continuing economic expansion, increased defense spending, and a strong housing market all contributed to the strength in sales tax collections.

Motor vehicle license fees (8 percent of the CTF) were \$0.1 million ahead of the forecast in fiscal year 2006.

International Registration Plan fees (3 percent of the CTF), the registration fees paid by interstate motor carriers, were flat in fiscal year 2006. 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 (4 percent of the CTF) were \$28.3 million above the forecast in fiscal year 2006. Two-thirds of the fiscal year 2006 surplus can be attributed to the minor revenue sources. Most of the surplus in the minor revenue sources was a result of higher-than-anticipated collections of interest earnings and miscellaneous taxes.

NON-GENERAL FUND REVENUES

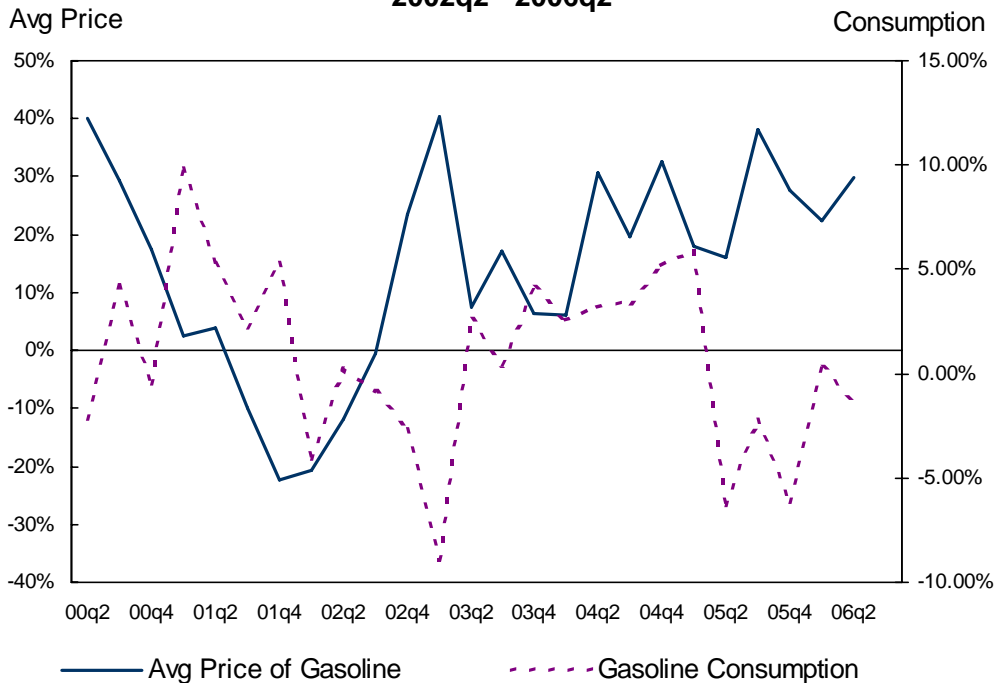
Outlook for Key Tax Base Variables

Motor Fuel Consumption

Gasoline consumption declined by 1.6 percent in fiscal year 2006 compared to the official forecast of a 1.2 percent decline. Diesel fuel consumption fell by 1.8 percent, considerably lagging the forecast of 2.7 percent growth.

In fiscal year 2006, the average price of gasoline increased by 29.8 percent over the previous year. In economic terms, the consumer reaction to gasoline price increases can be broken down into scale and substitution effects. The demand for gasoline is relatively inelastic in the short-term and involves mainly a reduction in discretionary travel and changes in driving and maintenance habits. If gasoline prices remain high, motorists trade in their larger vehicles for more fuel-efficient models, seek alternative transportation (carpool and public transportation), and move closer to where they work and shop. Research suggests it takes years for higher gas prices to meaningfully damp consumption. As can be seen in Figure 4.1, high prices do have some effect, but prices would have to be considerably higher than they were in fiscal year 2006 -- and would have to stay high for a long time -- to meaningfully curb gasoline consumption.

Figure 4.1
Growth in Avg Price of Gasoline/Consumption
2002q2 - 2006q2



NON-GENERAL FUND REVENUES

Motor fuels consumption is expected to grow at moderate rates over the near-term. Gas prices have recently dropped by a significant amount in the last 2 months, as average regular retail gasoline prices experienced the second largest average monthly decline ever from August to September. The steep decline in gas prices came about due to the end of the summer driving season, the lack of major hurricanes, the reemergence of adequate supplies, and continued high domestic gasoline output combined with high imports. The forecast anticipates that crude oil prices will surge this winter and remain high in 2007. Gas prices are expected to rise considerably as they are currently artificially low.

Retail diesel fuel prices fell by almost 30 cents per gallon from August to September, dropping along with crude prices, and were pushed down further as a result of high distillate fuel inventories going into the heating season. Diesel fuel prices are projected to average \$2.73 per gallon in 2006 and \$2.66 per gallon in 2007.

The forecast for motor fuels consumption shown in table 4.2 assumes that crude oil prices will average in the mid-\$70's a barrel range in 2007 and 2008 then moderate to the mid-\$60's a barrel over the remainder of the forecast horizon. However, all risks are on the upside.

Table 4.2
Motor Fuel Consumption
History and Forecast, Fiscal Years 2006 - 2010
(Percent Growth)

	Fiscal Years				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Taxable Gallons - Gasoline					
Official	(1.2)	2.3	3.6	3.3	2.4
Standard	(1.6)	0.2	1.1	2.1	2.7
Alternative	(1.6)	(2.9)	(0.1)	1.9	2.3
Taxable Gallons - Diesel					
Official	2.7	4.6	5.0	4.6	4.0
Standard	(1.8)	3.1	4.4	5.4	4.8
Alternative	(1.8)	0.8	0.8	4.4	4.7

Vehicle Sales

The official forecast was based on continued decline in new and used vehicles sales. Although sales in the first quarter hit record highs due to employee pricing, sales in the second half of the fiscal year were expected to slow due to high energy prices, constrained consumers, and rising interest rates. Both new and used vehicle sales suffered a decline in fiscal year 2006. New car sales fell by 1.3 percent and used car sales fell by 2.3 percent.

NON-GENERAL FUND REVENUES

Table 4.3 shows the official and November 2006 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 2006 - 2010
(Percent Growth)

	Fiscal Years				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
New Taxable Titles					
Official	(3.0)	1.4	0.5	(0.8)	2.1
Standard	(1.3)	(5.7)	0.7	(0.6)	1.3
Alternative	(1.3)	(11.9)	(20.3)	0.1	9.7
Avg Price - New Vehicles					
Official	(0.1)	1.5	1.2	0.8	1.5
Standard	(1.0)	1.4	2.5	2.6	2.6
Used Taxable Titles					
Official	(0.4)	(0.7)	0.0	1.2	(1.1)
Standard	(2.3)	(3.2)	1.5	3.2	0.1
Alternative	(2.3)	0.5	(0.3)	4.5	5.2
Avg Price - Used Vehicles					
Official	3.0	2.2	1.8	1.2	1.8
Standard	3.1	0.8	0.6	1.6	1.6

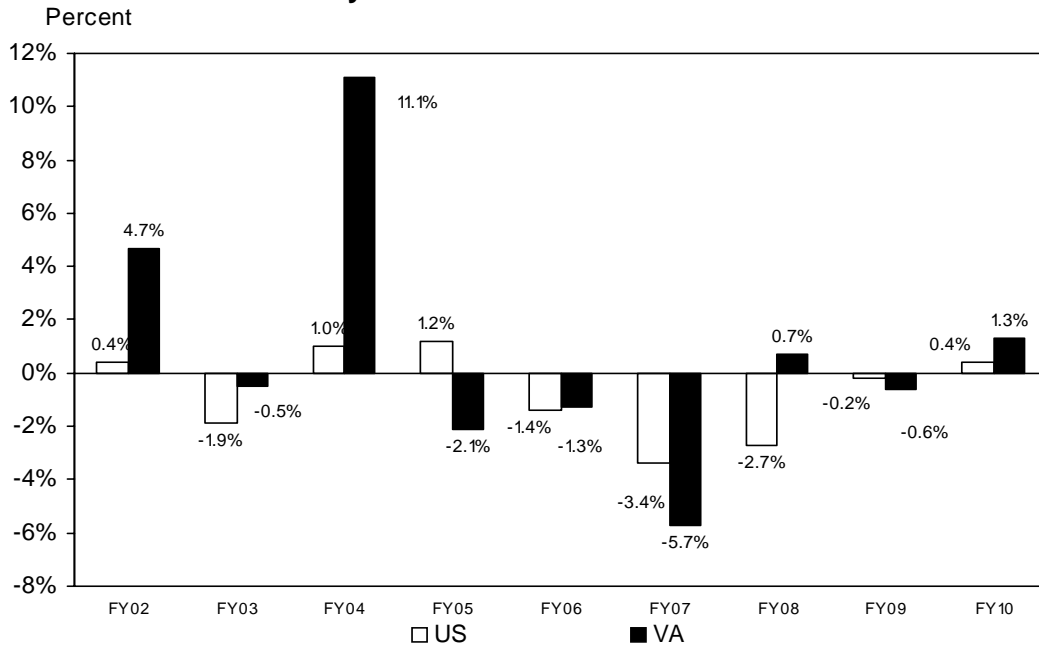
New Taxable Titles: In fiscal year 2006, close to 445,000 new vehicles were titled in Virginia, a decline of about 6,000 from fiscal year 2005. The official forecast anticipated a decline of over 13,000 new cars.

The November 2006 forecast expects a further decline of 5.7 percent in fiscal year 2007 and only marginal growth over fiscal years 2008 through 2010. New car sales are being negatively affected by eroding vehicle affordability, higher fuel costs, a moderating wealth factor attributable to the weakening housing market, and longer finance terms keeping buyers out of the market longer. In addition, cyclical factors should have a stronger impact on sales than earlier in the decade as auto manufacturers have become less aggressive in their incentive spending.

New vehicle sales fell 14.2 percent in the first quarter of fiscal year 2007 although the comparison is skewed due to growth of 10.5 percent in the same period last year. Sales are expected to fall by 1.6 percent over the last three quarters of the fiscal year.

As shown in Figure 4.2 below, new vehicle sales in Virginia are expected to decline at a higher rate than national sales in fiscal year 2007 but rebound slightly better in fiscal year 2008.

Figure 4.2
U.S. and Virginia Light Vehicle Sales
History and Forecast -- FY 2002 - 2010



Used Taxable Titles: Over 1.24 million used cars were sold in Virginia in fiscal year 2006, a decline of 2.3 percent from fiscal year 2005. Used car sales generally follow a sales pattern similar to new car sales. Higher interest rates and a moderating employment trend are expected to result in a decline of 3.2 percent in fiscal year 2007.

Average Prices - New and Used Vehicles: As foreign competition has captured a larger share of the U.S. market, the pricing power of U.S. auto manufacturers has weakened. Up until 1997, vehicle prices increased on average by about four percent annually. Prices have been falling ever since mainly by lowering prices through incentive spending.

High energy prices have heavily impacted the demand for higher priced SUV's while leading to increased demand for lower priced, more fuel efficient vehicles. The average price of a new vehicle sold in Virginia is expected to increase by 1.4 percent in fiscal year 2007 and 2.5 percent in fiscal year 2008.

Weak price growth in new vehicles filters down to the prices of similar used vehicles. Less favorable financing terms on used vehicles also affects pricing. The average price of a used vehicle sold in Virginia is expected to increase by 0.8 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008.

NON-GENERAL FUND REVENUES

November 2006 Commonwealth Transportation Fund Forecast

Table 4.4 on the following pages presents a comparison of the November 2006 forecast and the current official forecast which was prepared last year at this time and updated for actions of the 2006 General Assembly session. At the time the official forecast was prepared, the economy had entered into a phase of solid expansion. Virginia's employment picture was showing strong growth, particularly in the high-wage employment sectors. The November economic forecast anticipates slowing growth due to the housing market bust. Employment and income trends still reflect solid growth but at a slower pace than has been experienced in the prior two years.

As compared to the official forecast, total state taxes and fees are \$41.9 million lower in fiscal year 2007 and \$51.1 million lower in fiscal year 2008. Fiscal year 2007 growth is estimated to decline 0.3 percent and fiscal year 2008 growth is expected to be 2.8 percent.

Most of the downward revisions over the next two fiscal years are the result of moderating economic growth, high energy prices and rising interest rates. These negative factors lead directly to diminished expectations in collections of motor fuels taxes and motor vehicle sales and use taxes.

The motor fuels tax is the single largest revenue source in the Commonwealth Transportation Fund and is expected to decline by 1.1 percent in fiscal year 2007 and increase by 1.9 percent in fiscal year 2008. This forecast assumes an increase in gasoline prices near the end of 2006 and a further price increase next spring. In addition, the per barrel cost of oil is expected to remain high. Any type of supply disruption could send prices spiralling. The November 2006 forecast decreases the motor fuels estimate by \$13.5 million in fiscal year 2007 and \$32.3 million for fiscal year 2008 as compared to the official forecast.

Motor vehicle sales and use tax collections are expected to fall by 1.8 percent in fiscal year 2007 and increase by 3.1 percent in fiscal year 2008. The November 2006 forecast projects decreases of \$34.2 million and \$26.3 million for fiscal years 2007 and 2008, respectively, as compared to the official forecast.

The state retail sales and use tax revenues are expected to decline slightly in each of the next two fiscal years as a result of revisions to the General Fund's sales tax forecast and the elimination of accelerated sales tax collections.

NON-GENERAL FUND REVENUES

Table 4.4
The Official and November Standard Commonwealth Transportation Fund Forecast for Fiscal Year 2007
(Dollars in Millions)

	Fiscal Year 2006		Fiscal Year 2007				
	Actual	% Growth	Official Forecast	Nov Forecast	Change	% Growth over FY 06	
						Official	Nov
Highway Maintenance & Operating Fund							
Motor Fuels Tax	\$ 754.5	2.9 %	\$ 752.3	\$ 745.7	\$ (6.6)	(0.3) %	(1.2) %
Road Tax	(2.5)	10.7	(5.9)	(2.4)	3.5	(136.0)	4.0
Motor Vehicle Sales And Use Tax	390.2	(1.4)	404.1	381.9	(22.2)	3.6	(2.1)
Motor Vehicle License Fees	148.2	3.0	149.2	149.2	0.0	0.7	0.7
International Registration Plan	60.6	(0.2)	60.8	62.4	1.6	0.3	3.0
Miscellaneous*	32.0	20.9	13.3	12.7	(0.6)	(58.4)	(60.3)
Total State Taxes and Fees (HMOF)	\$ 1,383.0	1.9 %	\$ 1,373.8	\$ 1,349.5	\$ (24.3)	(0.7) %	(2.4) %
Transportation Trust Fund							
Motor Fuels Tax	\$ 107.0	(2.1) %	\$ 113.4	\$ 106.5	\$ (6.9)	6.0 %	(0.5) %
Priority Transportation Trust Fund	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Road Tax	8.2	7.9	8.0	8.4	0.4	(2.4)	2.4
Motor Vehicle Sales And Use Tax	208.3	(1.9)	217.6	205.6	(12.0)	4.5	(1.3)
Motor Vehicle License Fees	21.1	2.5	21.5	21.2	(0.3)	1.9	0.5
Retail Sales and Use Tax	476.3	5.9	517.2	508.7	(8.5)	8.6	6.8
Interest Earnings	38.6	118.8	25.3	33.8	8.5	(34.5)	(12.4)
Rental Tax	30.2	331.9	30.9	30.8	(0.1)	2.3	2.0
Aviation Fuels Tax	3.2	45.3	2.1	3.4	1.3	(33.4)	6.3
Total State Taxes and Fees (TTF)	\$ 912.9	7.8 %	\$ 956.0	\$ 938.4	\$ (17.6)	4.7 %	2.8 %
Total HMOF And TTF							
Motor Fuels Tax	\$ 861.5	2.3 %	\$ 865.7	\$ 852.2	\$ (13.5)	0.5 %	(1.1) %
Priority Transportation Trust Fund	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Road Tax	5.7	18.8	2.1	6.0	3.9	(63.2)	5.3
Motor Vehicle Sales and Use Tax	598.5	(1.6)	621.7	587.5	(34.2)	3.9	(1.8)
Motor Vehicle License Fees	169.3	2.9	170.7	170.4	(0.3)	0.8	0.6
International Registration Plan	60.6	(0.2)	60.8	62.4	1.6	0.3	3.0
Retail Sales and Use Tax	476.3	5.9	517.2	508.7	(8.5)	8.6	6.8
Interest Earnings	38.6	118.8	25.3	33.8	8.5	(34.5)	(12.4)
Rental Tax	30.2	331.9	30.9	30.8	(0.1)	2.3	2.0
Aviation Fuels Tax	3.2	45.3	2.1	3.4	1.3	(33.4)	6.3
Miscellaneous	32.0	20.9	13.3	12.7	(0.6)	(58.4)	(60.3)
Total State Taxes and Fees	\$ 2,295.9	4.2 %	\$ 2,329.8	\$ 2,287.9	\$ (41.9)	1.5 %	(0.3) %
Transfers per the Appropriations Act							
Priority Transportation Trust Fund	37.4	0.0	\$ 0.0	\$ 0.0	\$ 0.0	(100.0) %	(100.0) %
General Fund Transfer	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Retail Sales Tax - AST Retention	26.2	10.1	0.0	0.0	0.0	(100.0)	(100.0)
Increased Registration Fees	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Auto Insurance Premiums Tax	107.6	n/a	111.3	102.7	(8.6)	3.4	(4.6)
Total Transfers	171.2	(43.2)	\$ 111.3	\$ 102.7	\$ (8.6)	(35.0)	(40.0) %
Total Transportation Fund	2,467.1	(1.5)	\$ 2,441.1	\$ 2,390.6	\$ (50.5)	(1.1) %	(3.1) %

The Official forecast is based on the September 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

The November standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

*Miscellaneous collections have been restated.

NON-GENERAL FUND REVENUES

Table 4.4
The Official and November Standard Commonwealth Transportation Fund Forecast for Fiscal Year 2008
(Dollars in Millions)

	Fiscal Year 2008				
	Official	Nov	Change	% Growth over FY 07	
	Forecast	Forecast		Official	Nov
Highway Maintenance & Operating Fund					
Motor Fuels Tax	\$ 782.8	\$ 760.0	\$ (22.8)	4.1 %	1.9 %
Road Tax	(5.9)	(2.4)	3.5	0.0	0.0
Motor Vehicle Sales And Use Tax	411.0	393.9	(17.1)	1.7	3.1
Motor Vehicle License Fees	150.4	151.9	1.5	0.8	1.8
International Registration Plan	62.9	64.5	1.6	3.5	3.4
Miscellaneous*	13.9	13.0	(0.9)	4.5	2.4
Total State Taxes and Fees (HMOF)	\$ 1,415.1	\$ 1,380.9	\$ (34.2)	3.0 %	2.3 %
Transportation Trust Fund					
Motor Fuels Tax	\$ 117.6	\$ 108.1	\$ (9.5)	3.7 %	1.5 %
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0
Road Tax	8.0	8.4	0.4	0.0	0.0
Motor Vehicle Sales And Use Tax	221.3	212.1	(9.2)	1.7	3.2
Motor Vehicle License Fees	21.7	21.6	(0.1)	0.9	1.9
Retail Sales and Use Tax	542.5	536.0	(6.5)	4.9	5.4
Interest Earnings	23.3	30.4	7.1	(7.9)	(10.1)
Rental Tax	31.8	31.3	(0.5)	2.9	1.6
Aviation Fuels Tax	2.2	3.6	1.4	4.2	5.9
Total State Taxes and Fees (TTF)	\$ 988.4	\$ 971.5	\$ (16.9)	3.4 %	3.5 %
Total HMOF And TTF					
Motor Fuels Tax	\$ 900.4	\$ 868.1	\$ (32.3)	4.0 %	1.9 %
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0
Road Tax	2.1	6.0	3.9	0.0	0.0
Motor Vehicle Sales and Use Tax	632.3	606.0	(26.3)	1.7	3.1
Motor Vehicle License Fees	172.1	173.5	1.4	0.8	1.8
International Registration Plan	62.9	64.5	1.6	3.5	3.4
Retail Sales and Use Tax	542.5	536.0	(6.5)	4.9	5.4
Interest Earnings	23.3	30.4	7.1	(7.9)	(10.1)
Rental Tax	31.8	31.3	(0.5)	2.9	1.6
Aviation Fuels Tax	2.2	3.6	1.4	4.2	5.9
Miscellaneous	13.9	13.0	(0.9)	4.5	2.4
Total State Taxes and Fees	\$ 2,403.5	\$ 2,352.4	\$ (51.1)	3.2 %	2.8 %
Transfers per the Appropriations Act					
Priority Transportation Trust Fund	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %
General Fund Transfer	0.0	0.0	0.0	n/a	n/a
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a
Increased Registration Fees	0.0	0.0	0.0	n/a	n/a
Auto Insurance Premiums Tax	117.6	109.8	(7.8)	5.7	6.9
Total Transfers	\$ 117.6	\$ 109.8	\$ (7.8)	5.7 %	6.9 %
Total Transportation Fund	\$ 2,521.1	\$ 2,462.2	\$ (58.9)	3.3 %	3.0 %

The Official forecast is based on the September 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

The November standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

*Miscellaneous collections have been restated.

NON-GENERAL FUND REVENUES

Table 4.4
The Official and November Standard Commonwealth Transportation Fund Forecast for Fiscal Year 2009
(Dollars in Millions)

	Fiscal Year 2009				
	Official	Nov	Change	% Growth over FY 08	
	Forecast	Forecast		Official	Nov
Highway Maintenance & Operating Fund					
Motor Fuels Tax	\$ 812.2	\$ 782.6	\$ (29.6)	3.8 %	3.0 %
Road Tax	(6.0)	(2.4)	3.6	1.7	0.0
Motor Vehicle Sales And Use Tax	415.2	405.6	(9.6)	1.0	3.0
Motor Vehicle License Fees	150.6	151.7	1.1	0.1	(0.1)
International Registration Plan	65.0	66.6	1.6	3.4	3.3
Miscellaneous*	14.5	13.3	(1.2)	4.3	2.3
Total State Taxes and Fees (HMOF)	\$ 1,451.5	\$ 1,417.4	\$ (34.1)	2.6 %	2.6 %
Transportation Trust Fund					
Motor Fuels Tax	\$ 121.8	\$ 110.9	\$ (10.9)	3.6 %	2.6 %
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0
Road Tax	8.1	8.5	0.4	1.3	1.2
Motor Vehicle Sales And Use Tax	223.6	218.4	(5.2)	1.0	3.0
Motor Vehicle License Fees	21.7	21.6	(0.1)	0.0	0.0
Retail Sales and Use Tax	569.1	566.4	(2.7)	4.9	5.7
Interest Earnings	22.4	27.8	5.4	(3.9)	(8.6)
Rental Tax	32.8	32.3	(0.5)	3.1	3.2
Aviation Fuels Tax	2.3	3.8	1.5	4.2	5.6
Total State Taxes and Fees (TTF)	\$ 1,021.8	\$ 1,009.7	\$ (12.1)	3.4 %	3.9 %
Total HMOF And TTF					
Motor Fuels Tax	\$ 934.0	\$ 893.5	\$ (40.5)	3.7 %	2.9 %
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0
Road Tax	2.1	6.1	4.0	0.0	1.7
Motor Vehicle Sales and Use Tax	638.8	624.0	(14.8)	1.0	3.0
Motor Vehicle License Fees	172.3	173.3	1.0	0.1	(0.1)
International Registration Plan	65.0	66.6	1.6	3.4	3.3
Retail Sales and Use Tax	569.1	566.4	(2.7)	4.9	5.7
Interest Earnings	22.4	27.8	5.4	(3.9)	(8.6)
Rental Tax	32.8	32.3	(0.5)	3.1	3.2
Aviation Fuels Tax	2.3	3.8	1.5	4.2	5.6
Miscellaneous	14.5	13.3	(1.2)	4.3	2.3
Total State Taxes and Fees	\$ 2,473.3	\$ 2,427.1	\$ (46.2)	2.9 %	3.2 %
Transfers per the Appropriations Act					
Priority Transportation Trust Fund	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %
General Fund Transfer	0.0	0.0	0.0	n/a	n/a
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a
Increased Registration Fees	0.0	0.0	0.0	n/a	n/a
Auto Insurance Premiums Tax**	117.6	0.0	(117.6)	0.0	(100.0)
Total Transfers	\$ 117.6	\$ 0.0	\$ (117.6)	0.0 %	(100.0) %
Total Transportation Fund	\$ 2,590.9	\$ 2,427.1	\$ (163.8)	2.8 %	(1.4) %

The Official forecast is based on the September 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

The November standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

*Miscellaneous collections have been restated.

**The Virginia Transportation Act of 2000 provides for the transfer and deposit, subject to appropriation, of one-third of the Insurance Premiums tax into the Priority Transportation Trust Fund, established by Section 33.1-23.03.8 of the Code of Virginia (Chapter 1044).

NON-GENERAL FUND REVENUES

Table 4.4
The Official and November Standard Commonwealth Transportation Fund Forecast for Fiscal Year 2010
(Dollars in Millions)

	Fiscal Year 2010					
	Official	Nov	Change	% Growth over FY 09		
	Forecast	Forecast		Official	Nov	
Highway Maintenance & Operating Fund						
Motor Fuels Tax	\$ 836.0	\$ 808.4	\$ (27.6)	2.9 %	3.3 %	
Road Tax	(6.1)	(2.5)	3.6	1.7	4.2	
Motor Vehicle Sales And Use Tax	422.8	417.4	(5.4)	1.8	2.9	
Motor Vehicle License Fees	152.0	153.6	1.6	0.9	1.3	
International Registration Plan	67.2	68.7	1.5	3.3	3.2	
Miscellaneous*	15.2	13.6	(1.6)	4.8	2.3	
Total State Taxes and Fees (HMOF)	\$ 1,487.1	\$ 1,459.2	\$ (27.9)	2.4 %	2.9 %	
Transportation Trust Fund						
Motor Fuels Tax	\$ 125.0	\$ 114.2	\$ (10.8)	2.6 %	3.0 %	
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0	
Road Tax	8.2	8.5	0.3	1.2	0.0	
Motor Vehicle Sales And Use Tax	227.6	224.8	(2.8)	1.8	2.9	
Motor Vehicle License Fees	21.9	21.8	(0.1)	0.9	0.9	
Retail Sales and Use Tax	594.7	597.2	2.5	4.5	5.4	
Interest Earnings	21.8	25.4	3.6	(2.7)	(8.6)	
Rental Tax	33.7	33.1	(0.6)	2.7	2.5	
Aviation Fuels Tax	2.4	4.0	1.6	3.8	5.3	
Total State Taxes and Fees (TTF)	\$ 1,055.3	\$ 1,049.0	\$ (6.3)	3.3 %	3.9 %	
Total HMOF And TTF						
Motor Fuels Tax	\$ 961.0	\$ 922.6	\$ (38.4)	2.9 %	3.3 %	
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0	
Road Tax	2.1	6.0	3.9	0.0	(1.6)	
Motor Vehicle Sales and Use Tax	650.4	642.2	(8.2)	1.8	2.9	
Motor Vehicle License Fees	173.9	175.4	1.5	0.9	1.2	
International Registration Plan	67.2	68.7	1.5	3.3	3.2	
Retail Sales and Use Tax	594.7	597.2	2.5	4.5	5.4	
Interest Earnings	21.8	25.4	3.6	(2.7)	(8.6)	
Rental Tax	33.7	33.1	(0.6)	2.7	2.5	
Aviation Fuels Tax	2.4	4.0	1.6	3.8	5.3	
Miscellaneous	15.2	13.6	(1.6)	4.8	2.3	
Total State Taxes and Fees	\$ 2,542.4	\$ 2,508.2	\$ (34.2)	2.8 %	3.3 %	
Transfers per the Appropriations Act						
Priority Transportation Trust Fund	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %	
General Fund Transfer	0.0	0.0	0.0	n/a	n/a	
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a	
Increased Registration Fees	0.0	0.0	0.0	n/a	n/a	
Auto Insurance Premiums Tax**	117.6	0.0	(117.6)	0.0	n/a	
Total Transfers	\$ 117.6	\$ 0.0	\$ (117.6)	0.0 %	n/a %	
Total Transportation Fund	\$ 2,660.0	\$ 2,508.2	\$ (151.8)	2.7 %	3.3 %	

The Official forecast is based on the September 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

The November standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

*Miscellaneous collections have been restated.

**The Virginia Transportation Act of 2000 provides for the transfer and deposit, subject to appropriation, of one-third of the Insurance Premiums tax into the Priority Transportation Trust Fund, established by Section 33.1-23.03.8 of the Code of Virginia (Chapter 1044).

The Alternative Forecast

Table 4.5 on the following pages compares the official and November alternative Commonwealth Transportation Fund forecasts. Under the alternative forecast, total state taxes and fees are expected to be \$78.1 million lower in fiscal year 2007 and \$171.7 million lower in fiscal year 2008 than the official forecast.

This forecast is based on an economic scenario of increasing inflationary pressures, slowing economic growth as the housing market experiences a deeper downturn, and significantly higher interest rates.

NON-GENERAL FUND REVENUES

Table 4.5
The Official and November Alternative Commonwealth Transportation Fund Forecast for Fiscal Year 2007
(Dollars in Millions)

	Fiscal Year 2006		Fiscal Year 2007				
	Actual	% Growth	Official Forecast	Nov Forecast	Change	% Growth over FY 06	
						Official	Nov
Highway Maintenance & Operating Fund							
Motor Fuels Tax	\$ 754.5	2.9 %	\$ 752.3	\$ 725.8	\$ (26.5)	(0.3) %	(3.8) %
Road Tax	(2.5)	(10.7)	(5.9)	(2.4)	3.5	(136.0)	4.0
Motor Vehicle Sales And Use Tax	390.2	(1.4)	404.1	378.4	(25.7)	3.6	(3.0)
Motor Vehicle License Fees	148.2	3.0	149.2	146.6	(2.6)	0.7	(1.1)
International Registration Plan	60.6	(0.2)	60.8	62.4	1.6	0.3	3.0
Miscellaneous*	32.0	20.9	13.3	12.7	(0.6)	(58.4)	(60.3)
Total State Taxes and Fees (HMOF)	\$ 1,383.0	1.9 %	\$ 1,373.8	\$ 1,323.5	\$ (50.3)	(0.7) %	(4.3) %
Transportation Trust Fund							
Motor Fuels Tax	\$ 107.0	(2.1) %	\$ 113.4	\$ 103.4	\$ (10.0)	6.0 %	(3.4) %
Priority Transportation Trust Fund	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Road Tax	8.2	7.9	8.0	8.4	0.4	(2.4)	2.4
Motor Vehicle Sales And Use Tax	208.3	(1.9)	217.6	203.8	(13.8)	4.5	(2.2)
Motor Vehicle License Fees	21.1	2.5	21.5	20.8	(0.7)	1.9	(1.4)
Retail Sales and Use Tax	476.3	5.9	517.2	503.8	(13.4)	8.6	5.8
Interest Earnings	38.6	118.8	25.3	33.8	8.5	(34.5)	(12.4)
Rental Tax	30.2	331.9	30.9	30.8	(0.1)	2.3	2.0
Aviation Fuels Tax	3.2	45.3	2.1	3.4	1.3	(33.4)	6.3
Total State Taxes and Fees (TTF)	\$ 912.9	7.8 %	\$ 956.0	\$ 928.2	\$ (27.8)	4.7 %	1.7 %
Total HMOF And TTF							
Motor Fuels Tax	\$ 861.5	2.3 %	\$ 865.7	\$ 829.2	\$ (36.5)	0.5 %	(3.7) %
Priority Transportation Trust Fund	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Road Tax	5.7	18.8	2.1	6.0	3.9	(63.2)	5.3
Motor Vehicle Sales and Use Tax	598.5	(1.6)	621.7	582.2	(39.5)	3.9	(2.7)
Motor Vehicle License Fees	169.3	2.9	170.7	167.4	(3.3)	0.8	(1.1)
International Registration Plan	60.6	(0.2)	60.8	62.4	1.6	0.3	3.0
Retail Sales and Use Tax	476.3	5.9	517.2	503.8	(13.4)	8.6	5.8
Interest Earnings	38.6	118.8	25.3	33.8	8.5	(34.5)	(12.4)
Rental Tax	30.2	331.9	30.9	30.8	(0.1)	2.3	2.0
Aviation Fuels Tax	3.2	45.3	2.1	3.4	1.3	(33.4)	6.3
Miscellaneous	32.0	20.9	13.3	12.7	(0.6)	(58.4)	(60.3)
Total State Taxes and Fees	\$ 2,295.9	4.2 %	\$ 2,329.8	\$ 2,251.7	\$ (78.1)	1.5 %	(1.9) %
Transfers per the Appropriations Act							
Priority Transportation Trust Fund	37.4	0.0	\$ 0.0	\$ 0.0	\$ 0.0	(100.0) %	(100.0) %
General Fund Transfer	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Retail Sales Tax - AST Retention	26.2	10.1	0.0	0.0	0.0	(100.0)	(100.0)
Increased Registration Fees	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Auto Insurance Premiums Tax	107.6	n/a	111.3	102.7	(8.6)	3.4	(4.6)
Total Transfers	171.2	(43.2)	\$ 111.3	\$ 102.7	\$ (8.6)	(35.0)	(40.0) %
Total Transportation Fund	2,467.1	(1.5)	\$ 2,441.1	\$ 2,354.4	\$ (86.7)	(1.1) %	(4.6) %

The Official forecast is based on the September 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

The November standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

*Miscellaneous collections have been restated.

NON-GENERAL FUND REVENUES

Table 4.5
The Official and November Alternative Commonwealth Transportation Fund Forecast for Fiscal Year 2008
(Dollars in Millions)

	Fiscal Year 2008				
	Official	Nov	Change	% Growth over FY 07	
	Forecast	Forecast		Official	Nov
Highway Maintenance & Operating Fund					
Motor Fuels Tax	\$ 782.8	\$ 726.6	\$ (56.2)	4.1 %	0.1 %
Road Tax	(5.9)	(2.4)	3.5	0.0	0.0
Motor Vehicle Sales And Use Tax	411.0	346.9	(64.1)	1.7	(8.3)
Motor Vehicle License Fees	150.4	147.5	(2.9)	0.8	0.6
International Registration Plan	62.9	64.5	1.6	3.5	3.4
Miscellaneous*	13.9	13.0	(0.9)	4.5	2.4
Total State Taxes and Fees (HMOF)	\$ 1,415.1	\$ 1,296.1	\$ (119.0)	3.0 %	(2.1) %
Transportation Trust Fund					
Motor Fuels Tax	\$ 117.6	\$ 103.4	\$ (14.2)	3.7 %	0.0 %
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0
Road Tax	8.0	8.4	0.4	0.0	0.0
Motor Vehicle Sales And Use Tax	221.3	186.8	(34.5)	1.7	(8.3)
Motor Vehicle License Fees	21.7	21.0	(0.7)	0.9	1.0
Retail Sales and Use Tax	542.5	530.8	(11.7)	4.9	5.4
Interest Earnings	23.3	30.4	7.1	(7.9)	(10.1)
Rental Tax	31.8	31.3	(0.5)	2.9	1.6
Aviation Fuels Tax	2.2	3.6	1.4	4.2	5.9
Total State Taxes and Fees (TTF)	\$ 988.4	\$ 935.7	\$ (52.7)	3.4 %	0.8 %
Total HMOF And TTF					
Motor Fuels Tax	\$ 900.4	\$ 830.0	\$ (70.4)	4.0 %	0.1 %
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0
Road Tax	2.1	6.0	3.9	0.0	0.0
Motor Vehicle Sales and Use Tax	632.3	533.7	(98.6)	1.7	(8.3)
Motor Vehicle License Fees	172.1	168.5	(3.6)	0.8	0.7
International Registration Plan	62.9	64.5	1.6	3.5	3.4
Retail Sales and Use Tax	542.5	530.8	(11.7)	4.9	5.4
Interest Earnings	23.3	30.4	7.1	(7.9)	(10.1)
Rental Tax	31.8	31.3	(0.5)	2.9	1.6
Aviation Fuels Tax	2.2	3.6	1.4	4.2	5.9
Miscellaneous	13.9	13.0	(0.9)	4.5	2.4
Total State Taxes and Fees	\$ 2,403.5	\$ 2,231.8	\$ (171.7)	3.2 %	(0.9) %
Transfers per the Appropriations Act					
Priority Transportation Trust Fund	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %
General Fund Transfer	0.0	0.0	0.0	n/a	n/a
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a
Increased Registration Fees	0.0	0.0	0.0	n/a	n/a
Auto Insurance Premiums Tax	117.6	109.8	(7.8)	5.7	6.9
Total Transfers	\$ 117.6	\$ 109.8	\$ (7.8)	5.7 %	6.9 %
Total Transportation Fund	\$ 2,521.1	\$ 2,341.6	\$ (179.5)	3.3 %	(0.5) %

The Official forecast is based on the September 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

The November standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

*Miscellaneous collections have been restated.

NON-GENERAL FUND REVENUES

Table 4.5
The Official and November Alternative Commonwealth Transportation Fund Forecast for Fiscal Year 2009
(Dollars in Millions)

	Fiscal Year 2009				
	Official	Nov	Change	% Growth over FY 08	
	Forecast	Forecast		Official	Nov
Highway Maintenance & Operating Fund					
Motor Fuels Tax	\$ 812.2	\$ 744.8	\$ (67.4)	3.8 %	2.5 %
Road Tax	(6.0)	(2.4)	3.6	1.7	0.0
Motor Vehicle Sales And Use Tax	415.2	361.4	(53.8)	1.0	4.2
Motor Vehicle License Fees	150.6	147.4	(3.2)	0.1	(0.1)
International Registration Plan	65.0	66.6	1.6	3.4	3.3
Miscellaneous*	14.5	13.3	(1.2)	4.3	2.3
Total State Taxes and Fees (HMOF)	\$ 1,451.5	\$ 1,331.1	\$ (120.4)	2.6 %	2.7 %
Transportation Trust Fund					
Motor Fuels Tax	\$ 121.8	\$ 105.6	\$ (16.2)	3.6 %	2.1 %
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0
Road Tax	8.1	8.5	0.4	1.3	1.2
Motor Vehicle Sales And Use Tax	223.6	194.6	(29.0)	1.0	4.2
Motor Vehicle License Fees	21.7	20.9	(0.8)	0.0	(0.5)
Retail Sales and Use Tax	569.1	560.9	(8.2)	4.9	5.7
Interest Earnings	22.4	27.8	5.4	(3.9)	(8.6)
Rental Tax	32.8	32.3	(0.5)	3.1	3.2
Aviation Fuels Tax	2.3	3.8	1.5	4.2	5.6
Total State Taxes and Fees (TTF)	\$ 1,021.8	\$ 974.4	\$ (47.4)	3.4 %	4.1 %
Total HMOF And TTF					
Motor Fuels Tax	\$ 934.0	\$ 850.4	\$ (83.6)	3.7 %	2.5 %
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0
Road Tax	2.1	6.1	4.0	0.0	1.7
Motor Vehicle Sales and Use Tax	638.8	556.0	(82.8)	1.0	4.2
Motor Vehicle License Fees	172.3	168.3	(4.0)	0.1	(0.1)
International Registration Plan	65.0	66.6	1.6	3.4	3.3
Retail Sales and Use Tax	569.1	560.9	(8.2)	4.9	5.7
Interest Earnings	22.4	27.8	5.4	(3.9)	(8.6)
Rental Tax	32.8	32.3	(0.5)	3.1	3.2
Aviation Fuels Tax	2.3	3.8	1.5	4.2	5.6
Miscellaneous	14.5	13.3	(1.2)	4.3	2.3
Total State Taxes and Fees	\$ 2,473.3	\$ 2,305.5	\$ (167.8)	2.9 %	3.3 %
Transfers per the Appropriations Act					
Priority Transportation Trust Fund	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %
General Fund Transfer	0.0	0.0	0.0	n/a	n/a
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a
Increased Registration Fees	0.0	0.0	0.0	n/a	n/a
Auto Insurance Premiums Tax**	117.6	0.0	(117.6)	0.0	(100.0)
Total Transfers	\$ 117.6	\$ 0.0	\$ (117.6)	0.0 %	(100.0) %
Total Transportation Fund	\$ 2,590.9	\$ 2,305.5	\$ (285.4)	2.8 %	(1.5) %

The Official forecast is based on the September 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

The November standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

*Miscellaneous collections have been restated.

**The Virginia Transportation Act of 2000 provides for the transfer and deposit, subject to appropriation, of one-third of the Insurance Premiums tax into the Priority Transportation Trust Fund, established by Section 33.1-23.03.8 of the Code of Virginia (Chapter 1044).

NON-GENERAL FUND REVENUES

Table 4.5
The Official and November Alternative Commonwealth Transportation Fund Forecast for Fiscal Year 2010
(Dollars in Millions)

	Fiscal Year 2010				
	Official Forecast	Nov Forecast	Change	% Growth over FY 09	
				Official	Nov
Highway Maintenance & Operating Fund					
Motor Fuels Tax	\$ 836.0	\$ 766.7	\$ (69.3)	2.9 %	2.9 %
Road Tax	(6.1)	(2.5)	3.6	1.7	4.2
Motor Vehicle Sales And Use Tax	422.8	395.5	(27.3)	1.8	9.4
Motor Vehicle License Fees	152.0	149.3	(2.7)	0.9	1.3
International Registration Plan	67.2	68.7	1.5	3.3	3.2
Miscellaneous*	15.2	13.6	(1.6)	4.8	2.3
Total State Taxes and Fees (HMOF)	\$ 1,487.1	\$ 1,391.3	\$ (95.8)	2.4 %	4.5 %
Transportation Trust Fund					
Motor Fuels Tax	\$ 125.0	\$ 108.4	\$ (16.6)	2.6 %	2.7 %
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0
Road Tax	8.2	8.5	0.3	1.2	0.0
Motor Vehicle Sales And Use Tax	227.6	212.9	(14.7)	1.8	9.4
Motor Vehicle License Fees	21.9	21.2	(0.7)	0.9	1.4
Retail Sales and Use Tax	594.7	591.5	(3.2)	4.5	5.5
Interest Earnings	21.8	25.4	3.6	(2.7)	(8.6)
Rental Tax	33.7	33.1	(0.6)	2.7	2.5
Aviation Fuels Tax	2.4	4.0	1.6	3.8	5.3
Total State Taxes and Fees (TTF)	\$ 1,055.3	\$ 1,025.0	\$ (30.3)	3.3 %	5.2 %
Total HMOF And TTF					
Motor Fuels Tax	\$ 961.0	\$ 875.1	\$ (85.9)	2.9 %	2.9 %
Priority Transportation Trust Fund	20.0	20.0	0.0	0.0	0.0
Road Tax	2.1	6.0	3.9	0.0	(1.6)
Motor Vehicle Sales and Use Tax	650.4	608.4	(42.0)	1.8	9.4
Motor Vehicle License Fees	173.9	170.5	(3.4)	0.9	1.3
International Registration Plan	67.2	68.7	1.5	3.3	3.2
Retail Sales and Use Tax	594.7	591.5	(3.2)	4.5	5.5
Interest Earnings	21.8	25.4	3.6	(2.7)	(8.6)
Rental Tax	33.7	33.1	(0.6)	2.7	2.5
Aviation Fuels Tax	2.4	4.0	1.6	3.8	5.3
Miscellaneous	15.2	13.6	(1.6)	4.8	2.3
Total State Taxes and Fees	\$ 2,542.4	\$ 2,416.3	\$ (126.1)	2.8 %	4.8 %
Transfers per the Appropriations Act					
Priority Transportation Trust Fund	\$ 0.0	\$ 0.0	\$ 0.0	n/a %	n/a %
General Fund Transfer	0.0	0.0	0.0	n/a	n/a
Retail Sales Tax - AST Retention	0.0	0.0	0.0	n/a	n/a
Increased Registration Fees	0.0	0.0	0.0	n/a	n/a
Auto Insurance Premiums Tax**	117.6	0.0	(117.6)	0.0	n/a
Total Transfers	\$ 117.6	\$ 0.0	\$ (117.6)	0.0 %	n/a %
Total Transportation Fund	\$ 2,660.0	\$ 2,416.3	\$ (243.7)	2.7 %	4.8 %

The Official forecast is based on the September 2005 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

The November standard forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

*Miscellaneous collections have been restated.

**The Virginia Transportation Act of 2000 provides for the transfer and deposit, subject to appropriation, of one-third of the Insurance Premiums tax into the Priority Transportation Trust Fund, established by Section 33.1-23.03.8 of the Code of Virginia (Chapter 1044).

NON-GENERAL FUND REVENUES

ABC Revenues and Profits in Fiscal Year 2006

In fiscal year 2006, ABC's total income, excluding state tax receipts, was \$497.9 million. Gross sales of alcoholic beverages in the retail stores accounted for 95.9 percent of this income. The remaining 4.1 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 2002 through 2006. Along with the net ABC profits, Table 4.7 also shows transfers required by the Acts of the Assembly and net profits for distribution transferred to the General Fund. A significant increase in sales produced an increase in ABC profits between fiscal year 2005 and 2006.

Table 4.6
Department Of Alcoholic Beverage Control Components
Of The Enterprise Fund - Revenues, Expenses, Disbursements, Fiscal Years 2002-2006
(Millions of Dollars)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total Income*	\$ 356.8	\$ 383.0	\$ 424.0	\$ 465.1	\$ 497.9
Cost of Goods & Total Operating Expenses	310.6	327.3	349.2	373.1	404.7
Net ABC Profit	46.2	55.7	74.8	92.0	93.2
Transfer to the General Fund:					
Reimbursement for Appropriations as provided by the Acts of the Assembly	18.0	42.5	54.9	66.5	66.5
Net Profits for Distribution	\$ 28.2	\$ 13.2	\$ 19.9	\$ 25.5	\$ 26.7

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

Comparisons of ABC's performance in fiscal year 2005, projected performance for fiscal year 2006, and actual performance in fiscal year 2006, are included in Table 4.7. Fiscal Year 2006 shows an increase in sales, an increase in net ABC profits for distribution, and an increase in state tax revenue.

Table 4.7
A Comparison Of Fiscal Year 2005 Results fo Fiscal Year 2006
Estimated And Actual Results, (Millions of Dollars)

	<u>FY05 Actual Results</u>	<u>FY06 Estimate</u>	<u>FY06 Actual Results</u>	<u>FY06 Variance Amount</u>	<u>FY06 Variance Percent</u>	<u>FY05 vs. FY06 Estimate</u>	<u>FY05 vs. FY06 Actual</u>
Total Store Sales*	532.7	562.5	572.0	9.5	0.0	29.8	39.3
Net ABC Profit for Distribution	25.5	21.1	26.8	5.7	0.3	(4.4)	1.3
State Tax Revenue[†]	102.7	106.9	111.6	4.7	0.0	4.2	8.9

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

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

NON-GENERAL FUND REVENUES

Table 4.8 contains fiscal year 2006 actuals for store sales, profits for distribution and state tax revenues along with the 2007 and 2008 forecasts.

Table 4.8
Forecast Of ABC Store Sales, ABC State Tax On Alcohol, and Net Profit
(Millions of Dollars)

	<u>Actual</u>	<u>Forecast</u>	
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total ABC Store Sales: (1)	\$ 572.0	\$ 613.4	\$ 653.1
Adjusted Net Profits for Distribution: (2) (3) (5)	26.8	26.1	26.3
ABC State Tax Revenues:(1)			
Spirits	95.0	101.8	107.9
Wine (4)	<u>\$ 16.6</u>	<u>\$ 16.6</u>	<u>\$ 16.6</u>
Total Tax Revenue:	\$ 111.6	\$ 118.4	\$ 124.5

(1) Excludes the 4.5 percent general sales tax and lottery sales.

(2) Does not include transfers mandated by Chapter 3, 2006 Virginia Acts of Assembly

(3) DOA reports cash basis profit transfers while ABC's numbers are on an accrual basis.

(4) Wine figure includes state as well as local transfer but excludes statutory transfers to DMHMRSAS.

(5) Assumes appropriation transfers to occur in 2007 and 2008.

Distribution of ABC Profits and ABC State Tax Revenues

During fiscal year 2006, ABC contributed \$93.2 million of net profits to the Commonwealth, and collected \$165.4 million of taxes on store sales, wine, and beer and an additional \$22.2 million of general sales tax totaling \$280.8 million.

While 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 are 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 were \$62.7 million in fiscal year 2006. These appropriations are charged against net ABC profits before being transferred to the General Fund. The combination of all statutory transfers contained in Chapter 951, 2005 Virginia Acts of Assembly is \$66.5 million for fiscal year 2006. The remaining ABC profits are transferred into the General Fund as ABC profits, approximately \$4,150,000 of which is distributed to localities on a per-capita basis. 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. In any given year there could be significant variations between accrual and cash transfers of profits.

NON-GENERAL FUND REVENUES

Virginia Lottery

At the end of each fiscal year, the Lottery transfers its 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, 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 2006

The Virginia Lottery transferred net proceeds of \$454.9 million to the Lottery Proceeds Fund for fiscal year 2006. The Lottery also transferred \$0.8 million for debt set-off to the Department of Taxation and \$14.0 million from unclaimed prizes to the Literary Fund.

Sales for fiscal year 2006 were \$1.4 billion, up \$31.4 million (+2 percent) from fiscal year 2005, but \$23.0 million (-2 percent) lower than the fiscal year 2006 forecast. Net income exceeded the forecast because of lower than expected prize expenses, with the prize expense rate (prize costs as a percentage of sales) 1.8 percent lower than expected.

Forecast Overview - Fiscal Years 2007 to 2012

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

- the economic outlook as endorsed by the Governor's Advisory Board of Economists, in particular with respect to long-term interest rates and US Treasury-issued bond yields;
- anticipated lottery gaming competition from North Carolina, beginning in the fourth quarter of fiscal year 2006 and continuing with new product offerings throughout the current and future years;
- 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.

For fiscal year 2007, the Lottery is projecting sales of \$1.3 billion and net income (turnover to the Lottery Proceeds Fund) of \$405.4 million. Prize expense is estimated to be \$763.2 million, or 58.5 percent of sales; retailer compensation is forecast to be \$74.6 million, or 5.7 percent of sales. This forecast takes into account the overall slowdown in the growth of Virginia's scratch ticket product, and the estimated sales reduction anticipated from the continued competitive product offerings from the North Carolina Education Lottery. The estimated \$405.4 million net income is the total expected transfer to the Lottery Proceeds Fund for fiscal year 2007.

NON-GENERAL FUND REVENUES

For fiscal year 2008, the Lottery is projecting sales of \$1.3 billion, creating revenue for the Lottery Proceeds Fund of \$405.4 million. Projections for 2008 anticipate that the North Carolina lottery will offer the full product offerings of a traditional lottery; non-traditional lottery product offerings would likely reduce expected Virginia lottery sales further.

For fiscal years 2009 through 2012, the Lottery expects at this point that sales and net income will remain near fiscal year 2007 levels, at \$1.3 billion for sales and \$405.4 million for total net income.

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

	FY2007	FY2008	FY2009-12
Sales	\$1,304.4	\$1,304.4	\$1,304.4
- Prize Expense	763.2	763.2	763.2
- Retailer Compensation	74.6	74.6	74.6
- Operating Expenses	71.1	71.1	71.1
+ Other Income	9.9	9.9	9.9
Net Income	\$405.4	\$405.4	\$405.4
Transfer	\$405.4	\$405.4	\$405.4

Sales Projections for Fiscal Years 2007 through 2012

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 account for over half of total lottery sales. Sales of scratch games are expected to continue to experience slight overall growth for the current biennium as players continue to support the variety of games offered in Virginia. The key to the continued growth of scratch sales over the forecast horizon will be actively managing our comprehensive portfolio of games at various price levels.

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

About 15 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 two such games: Win for Life and Mega Millions. "Luck of the draw" plays a major role in the sales

NON-GENERAL FUND REVENUES

performance of Mega Millions. 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. The rates predicted in the Virginia Standard Forecast for the 2006-08 biennium are incorporated in the Lottery forecast.

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.

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. The estimated overall impact of the North Carolina Education Lottery offering competing products has been incorporated into the sales forecast beginning in fiscal year 2007.

Net Income for Fiscal Years 2007 through 2012

The Lottery is forecasting net income of \$405.4 million for fiscal year 2007, and \$405.4 million for fiscal years 2008. Net income is forecast at this point to remain steady at \$405.4 million for fiscal years 2009 and beyond. 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 5.7 percent of sales. Operating expenses are projected to remain low, forecast to stabilize around 5.5 percent of total sales.

The Virginia Lottery, now in its 19th year, with its current product mix, has reached the maturity stage. Virginia continues to support sustaining sales and net income through innovations in existing products, ongoing operating savings, and crucial marketing endeavors. The sales and net income declines predicted with this forecast are attributed to the increased competition for lottery products with the inception of the North Carolina lottery. This risk has been discussed and disclosed for a number of years.

Ongoing Risks to the Forecast

There are always a number of ongoing risks associated with the Virginia Lottery's forecast that could significantly affect the Lottery's transfer to the Lottery Proceeds Fund. The first is luck. 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. Conversely, a prolonged period of low payouts can lead to higher current profit margin, but dampen players' enthusiasm and reduce future sales and profits. Luck is also a primary driver of sales for Mega Millions. If jackpots are won with more frequency than expected, then sales will be lower than expected, due to small jackpots. Of course, a long period without a jackpot win can generate much higher sales due to the exponential growth of the jackpot.

A second risk is the prospect that North Carolina, as it begins its lottery operation, will launch product offerings not available in Virginia. The Virginia Lottery estimates that approximately 8-10 percent of its sales come from residents of North Carolina. If North Carolina were to introduce different products than those available in Virginia, the impact on Virginia Lottery sales and revenues could be more than anticipated in this current forecast. 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.

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.

NON-GENERAL FUND REVENUES

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.

Discussion of Forecast

The estimates in Tables 4.10 and 4.11 represent projections from the Unemployment Insurance Benefit Financing Model. The Baseline Scenario assumes a worst case for the closure of the Ford's Norfolk truck assembly plant in that there will be thousands of workers drawing maximum or above-average weekly benefits for the maximum duration of 26 weeks. The current estimates' decrease in tax revenue in fiscal years 2007 and 2008 reflects the change (in the opposite direction) in the Fund Balance Factor and the four year moving average of benefit charges from the recession. The increase in fiscal years 2009 and 2010 is the result of an increase in the pool tax rate as the benefits of Ford and its suppliers cannot be charged to them if they cease operations in Virginia. In the Baseline Scenario, pool taxes of 0.11 percent, 0.15 percent, 0.18 percent, and 0.19 percent are projected for Calendar Years 2007—2010 respectively. The increases in interest revenues are the result of taxes exceeding benefits and, hence, growing trust fund balances. In the *Low Growth* Alternate Scenario, pool taxes of 0.11 percent, 0.17 percent, 0.22 percent, and 0.25 percent are projected for Calendar Years 2007—2010 respectively. Due to higher benefit payments in the Alternate Scenario, average benefit ratios are higher. This, combined with the higher pool tax rates, produces higher tax revenue than the Baseline Scenario for fiscal years 2008 through 2010. The Alternate Scenario's higher benefit payments also produce lower interest revenue through lower balances.

NON-GENERAL FUND REVENUES

Table 4.10
Financial Forecasts Fiscal Years 2007, 2008, 2009, and 2010
Baseline Scenario (Global Insight STANDARD)
(Millions of Dollars)

Revenue Source	<u>Fiscal Year 2007</u>		<u>Fiscal Year 2008</u>		<u>Fiscal Year 2009</u>		<u>Fiscal Year 2010</u>	
	Standard Estimate	%Change From Actual Fiscal Year 2006	Standard Estimate	%Change From Estimated Fiscal Year 2007	Standard Estimate	%Change From Estimated Fiscal Year 2008	Standard Estimate	%Change From Estimated Fiscal Year 2009
Unemployment Insurance Tax	\$ 452.6	-17.5%	\$ 409.9	-9.4%	\$ 418.0	2.0%	\$ 429.1	2.7%
Interest on Trust Fund	\$ 32.1	24.9%	\$ 31.4	-2.2%	\$ 33.9	8.0%	\$ 37.1	9.4%
Total Revenue	\$ 484.7	-15.6%	\$ 441.3	-9.0%	\$ 451.9	2.4%	\$ 466.2	3.2%

Table 4.11
Financial Forecasts Fiscal Years 2007, 2008, 2009, and 2010
Alternate Scenario (Global Insight LOWGROWTH)
(Millions of Dollars)

Revenue Source	<u>Fiscal Year 2007</u>		<u>Fiscal Year 2008</u>		<u>Fiscal Year 2009</u>		<u>Fiscal Year 2010</u>	
	Standard Estimate	%Change From Actual Fiscal Year 2006	Standard Estimate	%Change From Estimated Fiscal Year 2007	Standard Estimate	%Change From Estimated Fiscal Year 2008	Standard Estimate	%Change From Estimated Fiscal Year 2009
Unemployment Insurance Tax	\$ 452.1	-17.6%	\$ 414.0	-8.4%	\$ 455.3	10.0%	\$ 503.8	10.7%
Interest on Trust Fund	\$ 31.8	23.7%	\$ 28.8	-9.4%	\$ 27.4	-4.9%	\$ 28.6	4.4%
Total Revenue	\$ 483.9	-15.7%	\$ 442.8	-8.5%	\$ 482.7	9.0%	\$ 532.4	10.3%