



# **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**

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## PREFACE

At their October 17, 2007 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 the consensus opinion being that slight downward revisions were needed to the standard forecast. The key risks mentioned most frequently were a more severe downturn in housing and energy supply shocks.

Two national and state forecasts are included in this publication: the national and state standard forecasts along with the national and state alternative low-growth forecasts.

The purpose of this meeting of the Governor's Advisory Council on Revenue Estimates is to evaluate and recommend an updated "most probable" path for the Virginia economy and general fund revenues.

Pursuant to Section 2.2-1503.3 of the Code of Virginia, interim economic and revenue forecasts were released in August 2007. Given that the economic outlook has only changed marginally since that time, the revenue forecast included in this publication has not been revised substantially from the August interim forecast. The November standard forecast raises total general fund projections by \$65.1 million in fiscal year 2008, lowers projections by \$19.6 million in fiscal year 2009, and increases revenues by \$18.4 million in fiscal year 2010.

Section 1 of this book contains a review of the national economic performance during fiscal year 2007. A summary of Global Insight's standard October national outlook is presented along with its alternative low-growth forecast.

Section 2 contains a review of Virginia's economic performance during fiscal year 2007. This is followed by a summary of the standard forecast developed by the Department of Taxation using the Global Insight standard October national forecast and adjusted pursuant to the recommendations of the GABE. The section closes with a discussion of the alternative forecast of the Virginia economy based on Global Insight's alternative low-growth scenario.

Section 3 addresses fiscal year 2007 collections of general fund revenues and the November forecasts based on the standard and alternative economic forecasts.

Section 4 discusses fiscal year 2007 collections and revenue forecasts for the non-general fund.

**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 2007 compared with the official forecast, the October 2006 standard forecast provided by Global Insight. Following this review, the economic outlook for fiscal years 2008 through 2010 is examined. The two national economic forecasts for consideration are the October 2007 standard forecast of Global Insight and its alternative low-growth forecast.

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 2002 through fiscal year 2007. 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 1996 through fiscal year 2010.

### Review of Fiscal Year 2007

Global Insight expected a continued expansion with slowing economic growth in fiscal year 2007. The national economy experienced moderate growth in fiscal year 2007, with most measures close to expectations for the year. Consumer spending remained solid despite deteriorating conditions in the housing market, in part due to strong income growth. The labor market slowly expanded over the year. Despite these positives, ongoing military operations, rising energy costs, and the cooling housing market continued to be a source of caution for investors.

Following is a summary of key assumptions included in Global Insight's October 2006 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 2007.

- Real GDP growth of 2.1 percent for the year was slightly below the forecast of 2.6 percent.

## U.S. ECONOMY

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**Table 1.1 - Fiscal Year 2007 U.S. Forecast Performance**

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	<u>Actual</u>	<u>Forecast</u>	<u>Actual Minus Forecast</u>
<u>Output, Income and Spending (% Change)</u>			
GDP	5.1	5.1	0.0
Real GDP	2.1	2.6	(0.5)
Total Personal Income	6.4	6.4	0.0
Wages and Salaries (56%) *	6.1	6.2	(0.1)
Average Wage (Nonag. Employ.)	4.4	5.0	(0.6)
Real Consumer Spending	3.0	3.0	0.0
<u>Employment and Labor Markets (% Change)</u>			
Total Nonagricultural Employment	1.6	1.2	0.4
Manufacturing (11%) *	(0.5)	(0.2)	(0.3)
Construction (6%)	1.6	0.4	1.2
Trade, Transportation, and Utilities (19%)	0.8	0.5	0.3
Information (2%)	0.6	(0.2)	0.8
Financial Activities (6%)	2.0	1.3	0.7
Professional and Business Services (13%)	2.8	2.5	0.3
Education and Health Services (13%)	2.7	2.2	0.5
Leisure and Hospitality (10%)	3.2	2.2	1.0
Other Services (4%)	0.8	0.7	0.1
Government (16%)	1.2	0.8	0.4
Unemployment Rate (%)	4.5	4.8	(0.3)
<u>Prices (% Change)</u>			
CPI	2.6	2.4	0.2
GDP Deflator	2.9	2.5	0.4
<u>Interest Rates (%)</u>			
3-Month Treasury Bills	4.9	4.8	0.1
30-Year Treasury Bonds	4.9	4.8	0.1

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The forecast data are taken from the October 2006 U.S. forecast developed by Global Insight.

\* Represents the percentage share of total.

- The 1.6 percent increase in total nonagricultural employment was ahead of the Global Insight forecast of 1.2 percent. Most major sectors grew faster than anticipated -- particularly construction, leisure and hospitality, information, and financial activities.
- Total personal income growth of 6.4 percent in fiscal year 2007 was right on the forecast. Reflecting the gains in the job market and wage increases, wages and salaries grew a solid 6.1 percent, just behind the forecast of 6.2 percent.
- Real consumer spending grew 3.0 percent in fiscal year 2007, as predicted in the forecast.
- Global Insight expected inflation to stabilize over the year. The actual increase in the CPI of 2.6 percent was close to expectations of 2.4 percent, while the GDP deflator increased 2.9 percent -- 0.4 percentage point higher than the predicted growth rate.
- Global Insight expected that the Fed would increase the federal funds rate in the fall, then cut rates to counter slower growth in the spring of 2007. The federal funds rate remained unchanged at 5.25 percent in nine consecutive meetings.

In summary, Global Insight anticipated a solid expansion in fiscal year 2007, with growth slowing over the year, expectations that materialized. The labor market continued to post moderate gains, contributing positively to wages and salaries growth and ultimately consumer spending.

### **The May Interim Standard Forecast**

Since revenue collections were below expectations in fiscal year 2007, an interim forecasting process was undertaken this summer. Two economic forecasts by Global Insight were presented to the Governor's Advisory Board of Economists (GABE) for review, with the May 2007 standard forecast being selected as the most probable path for the U.S. economy.

As Global Insight prepared its forecast, the economic expansion had weakened but the risk of falling into a recession appeared to be minimal over the near-term. Real GDP growth slowed to a 0.7 percent annualized pace in the first quarter of 2007, down from 2.5 percent in the fourth quarter of last year. The weakening in growth was due to a worsening in trade and reduced federal government spending. The housing market remained a severe weight on growth. Global Insight expected a gradual improvement in growth over the next two fiscal years as the drag from the housing market diminished. Real GDP growth was forecast to be 2.3 percent in fiscal year 2008 and 3.2 percent in fiscal years 2009 and 2010.

## **U.S. ECONOMY**

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The labor market was expected to be increasingly affected by the housing slowdown. Housing-related layoffs were slow to materialize given that many who work in the construction industry are self-employed or immigrants, both legal and illegal, who are not counted in the employment statistics. Job growth was expected to slow over the year, with average monthly gains of less than 100,000. Global Insight forecasted payroll employment growth to remain sluggish over the forecast horizon, with 1.0 percent growth in fiscal year 2008, 1.3 percent in 2009, and 1.5 percent in 2010.

Growth in personal income had been consistent with that of a maturing economic expansion and continued to exceed inflation. Global Insight expected total personal income growth to remain steady at 5.5 percent in fiscal year 2008, followed by growth of 5.6 percent and 6.0 percent in fiscal years 2009 and 2010, respectively. Growth in the largest component of personal income, wages and salaries, was expected to be 4.7 percent, 5.1 percent, and 5.6 percent respectively in fiscal years 2008 through 2010.

Consumer spending, which had remained solid, was expected to weaken due to 1) a softer labor market restraining income growth; 2) higher energy prices limiting disposable income; and 3) mortgage equity withdrawals continuing to fade. Real consumer spending was expected to increase by 2.8 percent in fiscal year 2008, 2.9 percent in 2009, and 3.1 percent in 2010.

When Global Insight prepared the May economic forecast, the manufacturing sector had softened, however, in April, the ISM index increased by 3.8 points to 54.7, the largest month-to-month increase since September 2005. The details of the report were almost universally upbeat and respondents generally echoed this positive sentiment. Nonetheless, employment in this sector was expected to weaken over the forecast horizon.

The housing market was expected to remain the biggest drag on growth over the coming quarters. Over the past year, the housing sector has suffered the biggest drop in residential construction in thirty years and the first national decline in home prices since the Great Depression. The economic fallout from the housing correction was expected to reach its peak in the second half of 2007. The possibility of a financial event was increasing due to the proliferation of subprime loans, which fueled the housing boom of 2004 and 2005.

The Federal Reserve was expected to trim the federal funds rate by 25 basis points later this year and then remain on extended hold. Inflation was the Fed's primary concern as core inflation was trading slightly above the target rate of 2.0 percent growth.

### **Recent Developments in the U.S. Economy**

The economy slowed considerably over the summer, as the turmoil in the housing industry continued to drag on growth. The disturbance in financial markets sparked by subprime mortgages escalated in August, increasing the fears of already wary investors.

After holding the federal funds rate steady at 5.25 percent for nine consecutive meetings, the Federal Reserve lowered the rate by 50 basis points to 4.75 percent at its September meeting, the first rate cut since 2003. This was followed by an additional reduction of 25 basis points at its October meeting, bringing the rate to 4.50 percent.

Payroll employment rose by 110,000 jobs in September, following a gain of 89,000 jobs in August. In September, gains in health care, food services, and professional and technical services offset losses in manufacturing and construction. The unemployment rate rose from 4.6 to 4.7 percent. Initial jobless claims for the third week of October fell by 8,000 to 331,000. The four-week average of claims stands at 325,000, essentially unchanged over the course of the year.

Manufacturing activity slowed in September. The Institute of Supply Management index declined slightly to 52.0; however, it remained in expansionary territory.

The Conference Board's index of consumer confidence fell in October to 95.6 from 99.5 in September, its third consecutive decline and the lowest level since October 2005. The October decline was led by the expectations component, although the current conditions component also dropped. Further, assessments of labor market conditions weakened.

The Conference Board's index of leading indicators rose 0.3 percent in September, following a 0.8 percent decline in August. The leading index has been erratic for most of the past year.

### **The Global Insight U.S. Standard Forecast**

Global Insight's October forecast anticipates that tight credit conditions will result in a deeper downturn in housing and more cautious consumers than its May forecast, dragging the U.S. economy into an extended period of below-trend growth. Growth is weaker than that contained in the interim outlook over the forecast horizon. Tables 1.2 and 1.3 on the following pages compare Global Insight's current October 2007 standard forecast to the May 2007 forecast, on which Virginia's interim economic and revenue forecasts were based.

Real GDP is anticipated to grow 2.1 percent in fiscal year 2008, followed by 2.5 percent and 2.9 percent in fiscal years 2009 and 2010. Employment growth is projected to hover around one percent, with annual increases of 0.9 percent in fiscal year 2008, 1.0 percent in 2009, and 1.3 percent in 2010.

Total personal income is estimated to increase 5.8 percent in fiscal year 2008, followed by 4.7 percent growth in fiscal year 2009 and 5.3 percent in 2010. Growth in wages and salaries, the largest component of personal income, is expected to be 5.4 percent in fiscal year 2008 and then slow to 4.5 percent in fiscal year 2009 and 4.9 percent in 2010.

## U.S. ECONOMY

**Table 1.2 - Fiscal Years 2005-2010 October & Interim Forecasts  
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.	6.3	6.6	5.1	4.2	4.3	5.0
	-Interim	6.4	6.7	5.2	4.6	5.2	5.4
Real GDP	-October Std.	3.1	3.2	2.1	2.1	2.5	2.9
	-Interim	3.3	3.4	2.5	2.3	3.2	3.2
Total Personal Income	-October Std.	6.5	6.2	6.4	5.8	4.7	5.3
	-Interim	6.1	5.7	5.8	5.5	5.6	6.0
Wages and Salaries (56%)*	-October Std.	5.6	5.7	6.1	5.4	4.5	4.9
	-Interim	5.3	6.1	5.2	4.7	5.1	5.6
Average Wage (Nonag. Employ.)	-October Std.	4.0	3.7	4.4	4.4	3.5	3.6
	-Interim	3.8	4.1	3.5	3.7	3.7	4.0
Real Consumer Spending	-October Std.	3.3	3.1	3.0	2.6	2.4	2.8
	-Interim	3.7	3.3	3.2	2.8	2.9	3.1
<u>Interest Rates (%)</u>							
3-Month Treasury Bills	-October Std.	2.2	4.1	4.9	3.8	4.1	4.6
	-Interim	2.2	4.1	4.9	4.9	4.9	4.9
30-Year Treasury Bonds	-October Std.	4.8	4.7	4.9	4.8	5.0	5.5
	-Interim	4.8	4.7	4.8	5.0	5.5	5.7
<u>Prices (% Change)</u>							
CPI	-October Std.	3.0	3.8	2.6	2.5	1.6	1.9
	-Interim	3.0	3.8	2.5	1.8	1.9	2.0
GDP Deflator	-October Std.	3.1	3.3	2.9	2.0	1.8	2.0
	-Interim	3.0	3.1	2.7	2.1	2.0	2.1

The October Std. forecast is Global Insight's October 2007 U.S. standard forecast, incorporating the most recent data from the Bureau of Economic Analysis (BEA).

The Interim forecast is Global Insight's May 2007 U.S. standard forecast.

\* Represents the percentage share of total.

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

		FY05	FY06	FY07	FY08	FY09	FY10
<b>Employment and Labor Markets (% Change)</b>							
Total Nonagricultural Employment	-October Std.	1.5	1.9	1.6	0.9	1.0	1.3
	-Interim	1.5	1.9	1.6	1.0	1.3	1.5
Manufacturing (11%)*	-October Std.	(0.2)	(0.6)	(0.5)	(1.2)	(1.8)	(0.2)
	-Interim	(0.2)	(0.6)	(0.5)	(1.3)	(0.9)	0.1
Construction (6%)	-October Std.	4.3	6.0	1.6	(3.1)	(2.3)	0.5
	-Interim	4.3	6.0	1.6	(2.3)	0.1	2.7
Trade, Transportation, and Utilities (19%)	-October Std.	1.5	1.6	0.8	1.0	1.3	1.3
	-Interim	1.5	1.6	0.8	1.2	1.7	1.3
Information (2%)	-October Std.	(2.2)	(0.8)	0.5	0.1	0.1	(0.5)
	-Interim	(2.2)	(0.8)	0.5	(1.6)	0.3	0.8
Financial Activities (6%)	-October Std.	0.9	2.3	2.0	0.1	0.6	1.9
	-Interim	0.9	2.3	2.0	0.1	0.9	1.6
Professional and Business Services (13%)	-October Std.	3.0	3.9	2.8	1.5	3.2	4.0
	-Interim	3.0	3.9	2.8	2.6	4.6	4.4
Education and Health Services (13%)	-October Std.	2.3	2.7	2.7	2.8	2.2	1.4
	-Interim	2.3	2.7	2.7	2.3	1.8	1.2
Leisure and Hospitality (10%)	-October Std.	2.6	2.4	3.2	2.5	2.0	0.9
	-Interim	2.6	2.4	3.1	2.2	1.4	1.2
Other Services (4%)	-October Std.	(0.2)	0.3	0.8	1.5	0.0	(0.9)
	-Interim	(0.2)	0.3	0.8	0.7	(0.4)	(0.1)
Government (16%)	-October Std.	0.7	0.8	1.2	0.7	0.7	0.9
	-Interim	0.7	0.8	1.2	1.0	0.4	1.0
Unemployment Rate (%)	-October Std.	5.3	4.8	4.5	4.8	5.0	4.8
	-Interim	5.3	4.8	4.6	4.8	4.8	4.5

The October Std. forecast is Global Insight's October 2007 U.S. standard forecast.

The Interim forecast is Global Insight's May 2007 U.S. standard forecast.

\* Represents the percentage share of total.

## **U.S. ECONOMY**

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Global Insight expects the housing downturn to spill over to the consumer sector. Although gas prices have come down from the peak reached in May 2007, declining home prices, tighter credit availability, and slower employment growth will curb spending. Real consumer spending is expected to grow by 2.6 percent in fiscal year 2008, 2.4 percent in 2009, and 2.8 percent in fiscal year 2010.

Global Insight expects that the Federal Reserve will continue to cut the federal funds rate, ending the year at 4.25 percent. Inflation is expected to stabilize with growth falling below two percent in fiscal years 2009 and 2010.

There are many significant risks to the forecast. A more severe fallout from the subprime mortgage market, an even steeper downturn in housing, or a stalling job market could push the economy into recession.

### **The Global Insight U.S. Alternative Forecast**

The alternative forecast assumes the housing downturn deepens and drags the economy into a mild recession in late 2007 and early 2008. Housing starts, home prices, and sales fall further than the standard forecast. The drop in wealth associated with lower home values and falling consumer confidence further slows consumer spending in 2008. Under the alternative forecast, the economy loses 189,000 jobs, industrial production falls for four consecutive quarters, and real GDP drops for two straight quarters. Global Insight estimates the probability of this scenario occurring is thirty percent.

Tables 1.4 and 1.5 compare the October 2007 Global Insight standard forecast with the October 2007 Global Insight alternative low-growth forecast.

In the alternative scenario, Global Insight expects real GDP growth to be 1.4 percent in fiscal year 2008, with a slowdown to 0.9 percent in fiscal year 2009, bouncing back to 2.1 percent in 2010. Global Insight anticipates that growth in total nonagricultural employment will fall to 0.6 percent in fiscal year 2008, with an unemployment rate of 5.0 percent. Job growth is expected to be flat in fiscal year 2009 and 0.6 percent in 2010.

Growth in total personal income is expected to be lower than the standard forecast, with substantially weaker growth in wages and salaries, particularly in fiscal years 2009 and 2010. Total personal income is expected to increase 5.5 percent in fiscal year 2008, 3.9 percent in fiscal year 2009, and 5.0 percent in 2010. Global Insight projects a 5.0 percent increase in wages and salaries in fiscal year 2008, followed by 3.3 percent growth in fiscal year 2009 and 4.0 percent in 2010, about a full percentage point lower than the standard forecast. Consumer spending is expected to drop below two percent over the forecast horizon, with growth of 2.2 percent in fiscal year 2008, 1.1 percent in 2009, and 1.5 percent in fiscal year 2010.



**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.	6.3	6.6	5.1	4.2	4.3	5.0
	-Alt. Low	6.3	6.6	5.1	3.4	3.0	4.7
Real GDP	-October Std.	3.1	3.2	2.1	2.1	2.5	2.9
	-Alt. Low	3.1	3.2	2.1	1.4	0.9	2.1
Total Personal Income	-October Std.	6.5	6.2	6.4	5.8	4.7	5.3
	-Alt. Low	6.5	6.2	6.4	5.5	3.9	5.0
Wages and Salaries (56%)*	-October Std.	5.6	5.7	6.1	5.4	4.5	4.9
	-Alt. Low	5.6	5.7	6.1	5.0	3.3	4.0
Average Wage (Nonag. Employ.)	-October Std.	4.0	3.7	4.4	4.4	3.5	3.6
	-Alt. Low	4.0	3.7	4.4	4.4	3.2	3.3
Real Consumer Spending	-October Std.	3.3	3.1	3.0	2.6	2.4	2.8
	-Alt. Low	3.3	3.1	3.0	2.2	1.1	1.5
<u>Interest Rates (%)</u>							
3-Month Treasury Bills	-October Std.	2.2	4.1	4.9	3.8	4.1	4.6
	-Alt. Low	2.2	4.1	4.9	3.5	4.6	5.7
30-Year Treasury Bonds	-October Std.	4.8	4.7	4.9	4.8	5.0	5.5
	-Alt. Low	4.8	4.7	4.9	4.8	5.9	6.5
<u>Prices (% Change)</u>							
CPI	-October Std.	3.0	3.8	2.6	2.5	1.6	1.9
	-Alt. Low	3.0	3.8	2.6	2.8	2.1	2.5
GDP Deflator	-October Std.	3.1	3.3	2.9	2.0	1.8	2.0
	-Alt. Low	3.1	3.3	2.9	2.0	2.0	2.6

The October Std. forecast is Global Insight's October 2007 U.S. standard forecast.

The Alt. Low forecast is Global Insight's October 2007 U.S. alternative low growth forecast.

\* Represents the percentage share of total.

## U.S. ECONOMY

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

		FY05	FY06	FY07	FY08	FY09	FY10
<u>Employment and Labor Markets (% Change)</u>							
Total Nonagricultural Employment	-October Std.	1.5	1.9	1.6	0.9	1.0	1.3
	-Alt. Low	1.5	1.9	1.6	0.6	0.1	0.6
Manufacturing (11%)*	-October Std.	(0.2)	(0.6)	(0.5)	(1.2)	(1.8)	(0.2)
	-Alt. Low	(0.2)	(0.6)	(0.5)	(1.1)	(3.1)	(1.6)
Construction (6%)	-October Std.	4.3	6.0	1.6	(3.1)	(2.3)	0.5
	-Alt. Low	4.3	6.0	1.6	(4.3)	(6.1)	(2.6)
Trade, Transportation, and Utilities (19%)	-October Std.	1.5	1.6	0.8	1.0	1.3	1.3
	-Alt. Low	1.5	1.6	0.8	0.5	0.0	0.6
Information (2%)	-October Std.	(2.2)	(0.8)	0.5	0.1	0.1	(0.5)
	-Alt. Low	(2.2)	(0.8)	0.5	(0.1)	0.3	(1.0)
Financial Activities (6%)	-October Std.	0.9	2.3	2.0	0.1	0.6	1.9
	-Alt. Low	0.9	2.3	2.0	(0.5)	(0.7)	1.3
Professional and Business Services (13%)	-October Std.	3.0	3.9	2.8	1.5	3.2	4.0
	-Alt. Low	3.0	3.9	2.8	0.2	0.6	3.9
Education and Health Services (13%)	-October Std.	2.3	2.7	2.7	2.8	2.2	1.4
	-Alt. Low	2.3	2.7	2.7	3.0	2.8	1.9
Leisure and Hospitality (10%)	-October Std.	2.6	2.4	3.2	2.5	2.0	0.9
	-Alt. Low	2.6	2.4	3.2	3.0	2.1	0.2
Other Services (4%)	-October Std.	(0.2)	0.3	0.8	1.5	0.0	(0.9)
	-Alt. Low	(0.2)	0.3	0.8	2.7	2.0	(0.3)
Government (16%)	-October Std.	0.7	0.8	1.2	0.7	0.7	0.9
	-Alt. Low	0.7	0.8	1.2	0.3	0.2	(0.1)
Unemployment Rate (%)	-October Std.	5.3	4.8	4.5	4.8	5.0	4.8
	-Alt. Low	5.3	4.8	4.5	5.0	5.7	5.8

The October Std. forecast is Global Insight's October 2007 U.S. standard forecast.

The Alt. Low forecast is Global Insight's October 2007 U.S. alternative low growth forecast.

\* Represents the percentage share of total.

**SECTION 2**  
**THE VIRGINIA ECONOMY**

## **Section 2 The Virginia Economy**

### **Introduction**

This section begins with a review of fiscal year 2007, comparing actual economic results to the official forecast for the year, as shown in Table 2.1. The official forecast for fiscal year 2007 was based on the October 2006 standard U.S. forecast of Global Insight and the corresponding Virginia forecast developed by the Department of Taxation, and incorporated recommendations from the October 2006 Governor's Advisory Board of Economists (GABE) meeting.

Following the review, the section turns to the outlook for fiscal years 2008 through 2010. Tables 2.2 and 2.3 compare the October 2007 standard forecast, based on Global Insight's October 2007 standard forecast, with the May 2007 interim economic outlook. The May 2007 interim economic outlook is based on the May 2007 Global Insight standard U.S. forecast and the corresponding Virginia forecast developed by the Department of Taxation and incorporates upward revisions to employment and personal income growth as suggested by the GABE at its June 13, 2007 meeting. The May 2007 interim economic outlook served as the basis for the August 2007 interim revenue forecast. Tables 2.4 and 2.5 compare the October 2007 standard forecast with the alternative forecast -- 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 2002 through fiscal year 2007. 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 1996 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 2006 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.

## VIRGINIA ECONOMY

**Table 2.1 - Fiscal Year 2007 Virginia Forecast Performance**

	<u>Actual</u>	<u>Forecast</u>	<u>Actual Minus Forecast</u>
<u>Income (% Change)</u>			
Total Personal Income	5.2	6.6	(1.4)
Real Personal Income	2.8	4.4	(1.6)
Wages and Salaries (58%)**	5.4	6.5	(1.1)
Average Wage (Nonag. Employment)	3.9	4.7	(0.8)
Dividends, Interest, and Rent (16%)	4.2	7.7	(3.5)
Supplements to Wages and Salaries (15%)	4.8	7.5	(2.7)
Proprietor's Income (7%)	(0.3)	2.4	(2.7)
<u>Employment and Labor Markets (% Change)</u>			
Total Nonagricultural Employment	1.4	1.7	(0.3)
Manufacturing (8%)**	(3.1)	0.4	(3.5)
Construction & Mining (7%)	(0.1)	2.9	(3.0)
Trade, Transportation, and Utilities (18%)	1.1	1.6	(0.5)
Information (3%)	(1.0)	(0.2)	(0.8)
Financial Activities (5%)	1.1	1.2	(0.1)
Professional and Business Services (16%)	3.1	3.1	0.0
Education and Health Services (11%)	4.0	2.2	1.8
Leisure and Hospitality (9%)	2.6	2.5	0.1
Other Services (5%)	0.9	2.2	(1.3)
Government (18%)	1.2	0.3	0.9
<u>Labor Markets (% Change)</u>			
Unemployment Rate (%)	3.0	3.3	(0.3)
<u>Housing (Thousands)*</u>			
Net Migration	35.5	45.9	(10.4)
Single Family Housing Starts	34.5	42.2	(7.7)
Multi-Family Housing Starts	5.2	6.9	(1.7)

The forecast data are based on the October 2006 U.S. standard forecast developed by Global Insight.

\* Three quarters of actual data

\*\* Represents the percentage share of total.

## **Review of Fiscal Year 2007**

The Virginia economy trended towards slower growth in fiscal year 2007. Growth in total nonagricultural employment was slightly weaker than projected, while income gains were also below the official forecast. The housing slowdown was a significant drag on growth, with double-digit declines in existing home sales and minimal price gains over the prior year. Economic growth was strongest in Richmond and Northern Virginia, with federal government spending providing stability in the face of a significant downturn in housing-related activity. In a departure from normal trends, Virginia grew at a slower rate than the nation in fiscal year 2007. However, fiscal year 2007 actual results are subject to change based on the annual benchmark revision to employment data and revised estimates of Virginia income.

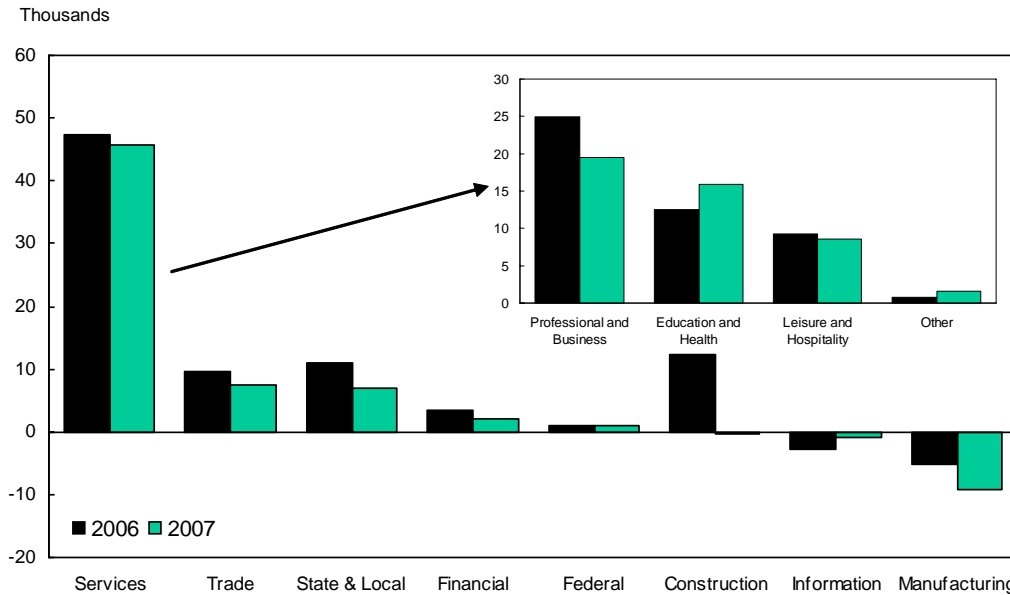
Virginia's income statistics were below projected growth in fiscal year 2007. Total personal income increased 5.2 percent -- 1.4 percentage points below forecast. Income from wages and salaries, which accounts for close to sixty percent of total personal income, grew 5.4 percent, below the forecast of a 6.5 percent increase. Average wage growth of 3.9 percent was 0.8 percentage point below forecast. Proprietor's income declined by 0.3 percent for the year, below the annual estimate. Both dividends, interest, and rental income and supplements to wages and salaries (formerly other labor income) finished below their respective estimates.

Employment growth was weaker than anticipated in fiscal year 2007. Year-over-year job growth of 1.4 percent was slightly below the forecast of a 1.7 percent annual gain. Total nonagricultural employment increased by 52,900 jobs -- 10,900 fewer jobs than anticipated in the official forecast -- after increasing 70,800 on average over the prior three fiscal years. As is typical, the services sector was the major driver of growth. The slowdown in housing significantly constrained growth in construction employment and dragged growth in trade, transportation, and utilities below forecast. Both the manufacturing and information sectors continued to lose jobs in fiscal year 2007. Six out of ten employment sectors fell short of the annual forecast, the largest differences being in manufacturing and construction. Education and health services exceeded expectations.

### **Industries**

Figure 2.1 on the following page displays fiscal year 2007 job gains and losses by sector compared with fiscal year 2006. The service sector, long the dominant sector of the Virginia economy, added 45,600 jobs in fiscal year 2007. The high-paying professional and business services subsector accounted for the majority of the gain, adding 19,500 jobs. The education and health services subsector added 15,900 jobs. Taken together, two-thirds of total job gains in the Commonwealth during the year were in professional and business and education and health services. The leisure and hospitality and other services subsectors added a combined total of 10,200 jobs.

**Figure 2.1**  
**VIRGINIA JOB GAINS/LOSSES BY SECTOR**  
**FISCAL YEARS 2006 AND 2007**



Employment in trade, transportation, and utilities increased by 7,500 jobs, 1,500 jobs below the average of the prior three fiscal years. Retail trade (64 percent of the supersector) was dampened by the slowdown in housing, accounting for the smaller gains than the prior three fiscal years. For the year, trade, transportation, and utilities increased 1.1 percent, below the forecast of 1.6 percent growth.

State and local government employment increased 1.3 percent for the year, adding 7,000 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 employment accounts for four percent of Virginia's employment base -- double the national average. For the year, federal government employment rose by 1,100 jobs, an increase of 0.7 percent.

The financial activities sector added 2,200 jobs over the year, down 1,100 jobs from the average of the prior three fiscal years. Growth in real estate-related employment has slowed for two consecutive years with the downturn in the housing market. For the year, sector employment increased 1.1 percent, near the forecast of 1.2 percent growth.

Construction and mining employment declined 0.1 percent, a loss of 400 jobs. Weakness in new home construction and remodeling drove growth 3.0 percentage points below forecast.

Employment in the information sector continued to decline, with a loss of 900 jobs in fiscal year 2007, bringing total job losses in this sector since the dot.com implosion to 31,200 -- a cumulative decline of 25.5 percent. The sector continues to be adversely affected by the outsourcing of telecommunication and other information jobs.

The manufacturing sector, which shed only 6,600 jobs over the last two fiscal years, saw a decline of 9,100 jobs in fiscal year 2007, marking the ninth consecutive year of declines. Both durable and nondurable goods declined from prior year levels. For the year, manufacturing employment declined by 3.1 percent, compared to the forecast of 0.4 percent growth.

Overall, fiscal year 2007 displayed the typical growth pattern for Virginia -- growth in service industries somewhat offset by a decline in manufacturing. The weakness in the housing sector was the primary contributor to slower employment growth. Taken together, employment in construction, trade, transportation, and utilities, and financial activities increased by 9,300 jobs (0.8 percent growth) in fiscal year 2007, 15,000 fewer new jobs than averaged over the prior three fiscal years. Excluding housing-related employment sectors, total nonagricultural employment gains were in line with the prior three fiscal years, reflecting an underlying trend of slightly slower economic growth.

### Regions

Employment increased in all regions of the Commonwealth in fiscal year 2007. In Northern Virginia, which represents about a third of all jobs in the state, total employment increased by 1.8 percent -- a gain of 22,700 jobs, 43 percent of total state gains for the year. The service sector as a whole added 20,900 jobs, 92 percent of total regional gains, including 12,500 in professional and business services, most of which are federal government-related. Construction employment declined by 1,500 jobs with the slowdown in housing, the first decline since fiscal year 2003 and a significant shift from the 6,100 construction jobs added on average over the prior three fiscal years. The information sector shed an additional 1,300 jobs during the year, the sixth consecutive year of declines. 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 1,000 federal government jobs in fiscal year 2007.

The Norfolk-Virginia Beach-Newport News MSA experienced employment growth of 0.8 percent in fiscal year 2007. The region had a gain of 6,500 jobs, down from the 9,600 jobs added on average over the prior three fiscal years. 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 1,200 jobs in fiscal year 2007, about one-half the amount added in the prior year, increasing 1.4 percent for the year.

Employment in the Richmond-Petersburg MSA increased 1.9 percent in fiscal year 2007, an addition of 11,800 jobs. Gains were centered in leisure and hospitality services, trade, transportation and utilities, and education and health services. The construction and financial activities sectors added jobs during the year. The Richmond housing market has not seen the significant declines in home sales as experienced in Northern Virginia. As a result, employment growth outpaced that of Northern Virginia for the first time since fiscal year 2002.



## **VIRGINIA ECONOMY**

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Employment in the balance of the state increased by 11,900 jobs, growth of 1.1 percent. Gains were strongest in service employment and trade, transportation, and utilities. Construction and mining employment increased only 400 jobs during the year after increasing 3,500 in fiscal year 2006. The manufacturing sector experienced another annual decline, bringing total job losses since fiscal year 1999 to 69,900 jobs, or 31 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 trended towards slower growth in fiscal year 2007. The housing slowdown was a significant drag on growth, accounting for roughly 80 percent of the decline in annual gains in total nonagricultural employment. Employment growth was strongest in Richmond and Northern Virginia.

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. Gains in total personal income were driven by near-trend growth in wages and salaries.

### **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. Tables 2.2 and 2.3 on the following pages compare the October 2007 standard Virginia forecast with the May 2007 GABE interim forecast. The October standard forecast is based on the Global Insight October 2007 standard U.S. forecast and uses the Department of Taxation's Virginia econometric model. It incorporates recommendations from the GABE regarding downward adjustments to employment and wage and salary growth for fiscal year 2008. The May GABE interim forecast is based on the Global Insight May 2007 standard U.S. forecast and incorporates recommendations from the GABE for slightly stronger growth in Virginia.

The October standard forecast for Virginia is essentially unchanged in employment and income growth from the May GABE interim forecast. The October standard forecast expects employment growth to be below trend in fiscal year 2008, followed by trend growth over the forecast horizon. Income gains are projected to be at trend over the forecast horizon. 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 2008.

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

		FY05	FY06	FY07	FY08	FY09	FY10
<u>Employment (% Change)</u>							
Total Nonagricultural Employment	-October Std.	2.6	2.1	1.4	1.1	1.5	1.8
	-Interim	2.6	2.1	1.4	1.3	1.6	1.8
Manufacturing (8%)	-October Std.	(0.4)	(1.8)	(3.1)	(1.6)	(0.5)	0.1
	-Interim	(0.4)	(1.8)	(2.0)	0.3	0.4	0.4
Construction & Mining (7%)	-October Std.	5.6	5.0	(0.1)	(1.3)	0.9	1.9
	-Interim	5.6	5.0	0.1	0.4	1.3	2.6
Trade, Transportation, and Utilities (18%)	-October Std.	1.6	1.5	1.1	1.1	1.0	1.1
	-Interim	1.6	1.5	1.1	1.7	1.2	0.7
Information (3%)	-October Std.	(5.8)	(3.0)	(1.0)	(1.6)	1.5	1.8
	-Interim	(5.8)	(2.9)	0.1	(0.5)	1.2	1.6
Financial Activities (5%)	-October Std.	1.7	1.7	1.1	1.3	1.9	2.5
	-Interim	1.7	1.7	1.7	1.2	1.6	2.4
Professional and Business Services (16%)	-October Std.	5.7	4.2	3.1	3.3	4.4	4.5
	-Interim	5.7	4.2	3.1	3.2	4.2	4.4
Education and Health Services (11%)	-October Std.	3.4	3.2	4.0	2.1	1.9	1.2
	-Interim	3.4	3.2	2.8	1.9	2.0	1.3
Leisure and Hospitality (9%)	-October Std.	3.4	2.8	2.6	0.8	1.4	1.8
	-Interim	3.4	2.8	2.1	1.4	1.4	1.8
Other Services (5%)	-October Std.	2.0	0.5	0.9	0.9	(0.7)	0.5
	-Interim	2.0	0.5	1.8	(1.2)	(1.1)	0.4
Government (18%)	-October Std.	2.0	1.8	1.2	0.7	0.4	1.0
	-Interim	2.0	1.8	1.1	0.7	0.5	1.0
Unemployment Rate (%)	-October Std.	3.6	3.2	3.0	3.1	2.7	2.7
	-Interim	3.6	3.2	3.1	3.4	3.0	3.0

The October Std. forecast from the Department of Taxation is based on Global Insight's October 2007 U.S. standard forecast.  
The Interim forecast from the Department of Taxation is based on Global Insight's May 2007 U.S. standard forecast and incorporates recommendations from the June 13, 2007 GABE Meeting.

\* Represents the percentage share of total.

## VIRGINIA ECONOMY

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

		FY05	FY06	FY07	FY08	FY09	FY10
<u>Income (% Change)</u>							
Total Personal Income	-October Std.	7.4	6.4	5.2	5.6	5.9	6.2
	-Interim	6.8	5.9	5.3	5.6	6.0	6.2
Real Personal Income	-October Std.	4.4	3.1	2.8	3.3	4.2	4.3
	-Interim	3.9	2.7	2.9	3.6	4.0	4.1
Wages and Salaries (58%)*	-October Std.	7.5	6.2	5.4	5.5	5.2	6.0
	-Interim	7.2	6.4	5.2	5.5	5.7	6.2
Average Wage (Nonag. Employ.)	-October Std.	4.8	4.0	3.9	4.4	3.7	4.1
	-Interim	4.5	4.2	3.7	4.1	4.1	4.3
Dividends, Interest, and Rent (16%)	-October Std.	6.1	6.0	4.2	7.2	7.9	9.3
	-Interim	2.1	4.3	6.7	6.1	7.9	9.1
Supplements to Wages and Salaries (15%)	-October Std.	8.8	6.8	4.8	5.4	6.3	6.7
	-Interim	9.9	6.2	5.5	6.5	6.4	7.0
Proprietor's Income (7%)	-October Std.	11.8	7.2	(0.3)	3.3	7.5	3.4
	-Interim	11.1	7.1	0.8	3.3	6.0	2.3
<u>Migration and Housing (Thousands)</u>							
Net Migration	-October Std.	44.4	31.9	35.5	39.4	41.4	42.0
	-Interim	44.4	31.9	35.7	39.5	41.6	42.3
Single Family Housing Starts	-October Std.	51.5	48.2	34.5	29.9	34.0	36.1
	-Interim	51.7	46.5	36.7	35.4	38.7	40.8
Multi-Family Housing Starts	-October Std.	9.0	8.9	5.2	4.2	4.5	4.6
	-Interim	9.0	8.9	5.8	6.1	6.6	6.8

The October Std. forecast from the Department of Taxation is based on Global Insight's October 2007 U.S. standard forecast.

The Interim forecast from the Department of Taxation is based on Global Insight's May 2007 U.S. standard forecast and incorporates recommendations from the June 13, 2007 GABE Meeting.

\* Represents the percentage share of total.

The standard forecast projects that Virginia will outperform the nation in total nonagricultural employment growth through fiscal year 2010 after experiencing slightly weaker growth in fiscal year 2007. Total nonagricultural employment is expected to increase by 1.1 percent in fiscal year 2008, 1.5 percent in fiscal year 2009, and 1.8 percent in fiscal year 2010. Job losses are expected to continue in manufacturing, construction, and information in fiscal year 2008. Most of the growth is expected in professional and business services and education and health services. 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

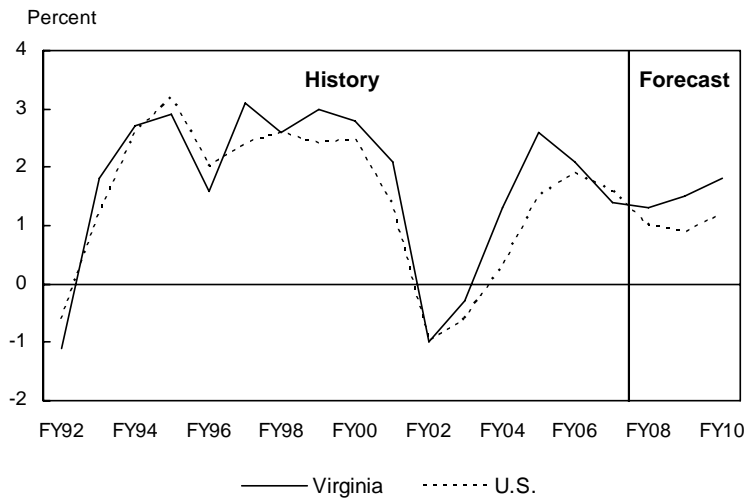
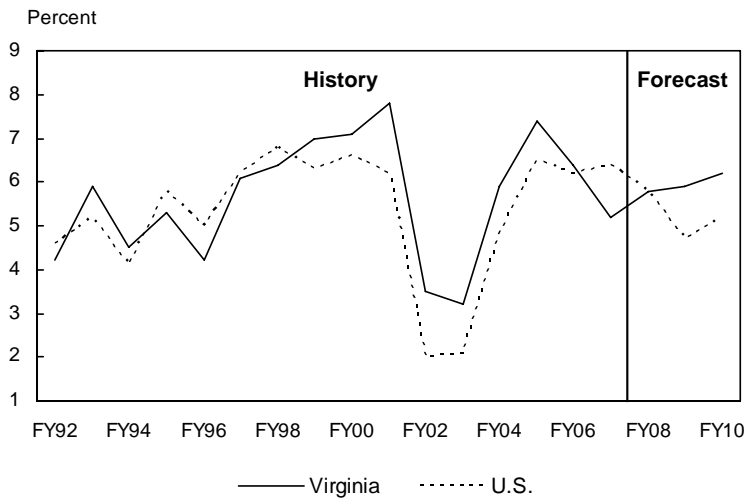


Figure 2.3 compares personal income growth in Virginia with that of the nation. Total personal income growth in Virginia is expected to equal the nation's in fiscal year 2008 and exceed it over the forecast horizon. The growth and diversity of Virginia's labor force is the basis of the outlook for personal income growth.

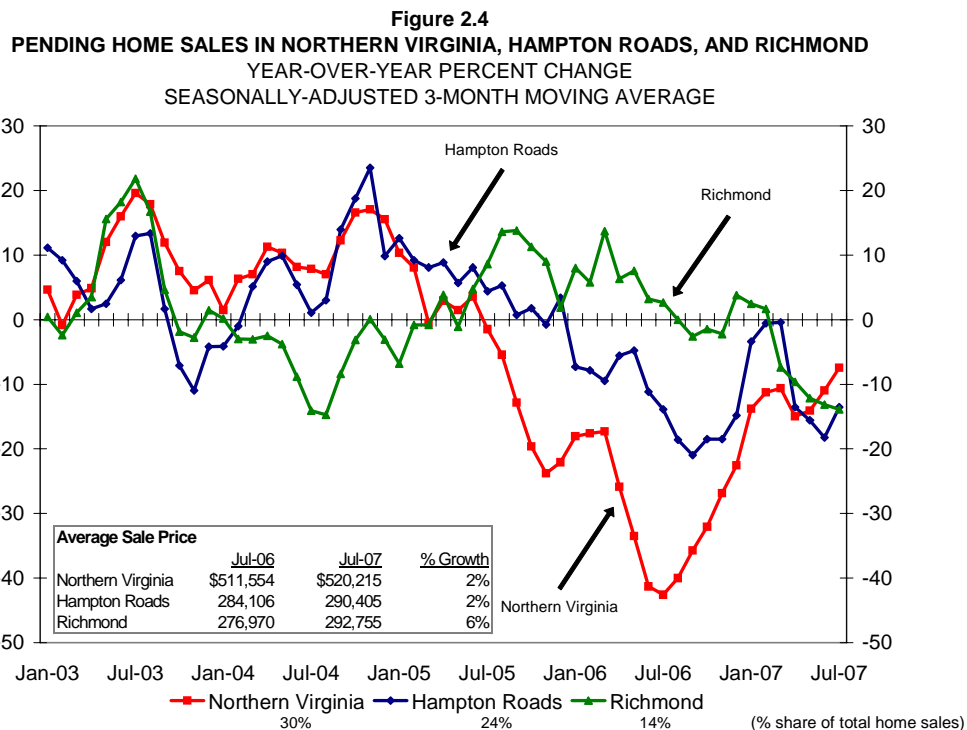
Figure 2.3  
U.S. AND VIRGINIA PERSONAL INCOME GROWTH  
HISTORY AND FORECAST - FISCAL YEARS 1992-2010



## VIRGINIA ECONOMY

Personal income growth is projected to be essentially the same as the interim forecast, with growth of 5.6 percent in fiscal year 2008, 5.9 percent in fiscal year 2009, and 6.2 percent in fiscal year 2010. Projections for growth in wages and salaries are the same in fiscal year 2008, but lower than the interim forecast in fiscal years 2009 and 2010. Growth is expected to be 5.5 percent in fiscal year 2008, followed by 5.2 percent in fiscal year 2009, 0.5 percentage point below the interim estimate. Growth in fiscal year 2010 is expected to be 6.0 percent, slightly behind the interim estimate of 6.2 percent.

The greatest risk to economic growth in the Commonwealth is the slowdown in the housing market. Housing, along with federal defense spending, was the primary driver of economic growth from fiscal year 2004 to fiscal year 2006. Like many states, Virginia experienced extraordinary growth in household formation from generational low interest rates and new financing products. The increased activity in the housing market 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, sustained activity as interest rates rose and affordability declined. The general slowdown in housing and the subprime mortgage meltdown pose a significant risk to economic growth to the extent that they negatively impact consumer fundamentals and weaken related sectors of the economy. Figure 2.4 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).



As illustrated in Figure 2.4, pending home sales in the three major metro areas are down from prior year levels. In Northern Virginia, pending home sales have been declining since July 2005. The most recent data show a 7 percent decline following a 43 percent decline in the same month last year. The Hampton Roads area has been declining since the

start of 2006, with pending home sales down about 15 percent over the last four months. Growth in the Richmond metro area has been uneven, with pending home sales down about 13 percent over the last three months.

In addition to declines in volume, growth in the average sales price has trended downwards. In fiscal year 2007, the seasonally-adjusted average sales price in Virginia increased 1.2 percent, down substantially from the 15 percent growth recorded on average over the prior three fiscal years. In Northern Virginia, the average sales price declined 2.0 percent from the prior year and the three-month moving average is \$19,000 below the peak of \$524,500 reached in November 2005. Average sales prices have continued to grow in Hampton Roads and Richmond, though the pace has slowed.

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.

In summary, the October standard forecast anticipates that economic growth in Virginia will be hampered by the slowdown in the housing market and its impact on various sectors of the economy. The weakness in growth will be primarily attributable to a slowdown in the Northern Virginia region, where the real estate slump has been more severe than the rest of the state. In addition, weaker prospects for national growth are expected to limit federal spending, much of which is defense-related and flows to Northern Virginia companies. Overall, fiscal year 2008 will be a year of transition as the shock from the fallout in housing propagates through the economy. Economic growth is expected to approximate long-term trends over the forecast horizon.

### **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 only slightly lower than the standard, while wage and salary growth is substantially lower over the forecast horizon.

Projected employment growth in fiscal year 2008 and 2009 is 1.0 percent and 1.4 percent, just 0.1 percentage point below the standard forecast. Growth in fiscal year 2010 is projected to be 1.8 percent.

Total personal income growth is the same in fiscal year 2008, with a forecast of 5.6 percent growth. The outlook for fiscal year 2009 is for 5.6 percent growth, 0.3 percentage point below the standard forecast.

## VIRGINIA ECONOMY

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

		FY05	FY06	FY07	FY08	FY09	FY10
<u>Employment (% Change)</u>							
Total Nonagricultural Employment	-October Std.	2.6	2.1	1.4	1.1	1.5	1.8
	-Alt. Low	2.6	2.1	1.4	1.0	1.4	1.8
Manufacturing (8%)	-October Std.	(0.4)	(1.8)	(3.1)	(1.6)	(0.5)	0.1
	-Alt. Low	(0.4)	(1.8)	(2.0)	0.3	0.4	0.4
Construction & Mining (7%)	-October Std.	5.6	5.0	(0.1)	(1.3)	0.9	1.9
	-Alt. Low	5.6	5.0	0.1	0.4	1.3	2.6
Trade, Transportation, and Utilities (18%)	-October Std.	1.6	1.5	1.1	1.1	1.0	1.1
	-Alt. Low	1.6	1.5	1.1	1.0	0.9	0.7
Information (3%)	-October Std.	(5.8)	(3.0)	(1.0)	(1.6)	1.5	1.8
	-Alt. Low	(5.8)	(2.9)	0.1	(0.5)	1.2	1.6
Financial Activities (5%)	-October Std.	1.7	1.7	1.1	1.3	1.9	2.5
	-Alt. Low	1.7	1.7	1.7	0.8	1.5	2.5
Professional and Business Services (16%)	-October Std.	5.7	4.2	3.1	3.3	4.4	4.5
	-Alt. Low	5.7	4.2	3.1	1.9	3.6	4.4
Education and Health Services (11%)	-October Std.	3.4	3.2	4.0	2.1	1.9	1.2
	-Alt. Low	3.4	3.2	2.8	1.9	2.0	1.3
Leisure and Hospitality (9%)	-October Std.	3.4	2.8	2.6	0.8	1.4	1.8
	-Alt. Low	3.4	2.8	2.1	1.4	1.4	1.8
Other Services (5%)	-October Std.	2.0	0.5	0.9	0.9	(0.7)	0.5
	-Alt. Low	2.0	0.5	1.8	(1.2)	(1.1)	0.4
Government (18%)	-October Std.	2.0	1.8	1.2	0.7	0.4	1.0
	-Alt. Low	2.0	1.8	1.1	0.7	0.5	1.0
Unemployment Rate (%)	-October Std.	3.6	3.2	3.0	3.1	2.7	2.7
	-Alt. Low	3.6	3.2	3.1	3.4	3.0	3.0

The October Std. forecast from the Department of Taxation is based on Global Insight's October 2007 U.S. standard forecast.

The Alt. Low Forecast from the Department of Taxation is based on Global Insight's October 2007 U.S. alternative low growth U.S. forecast.

\* Represents the percentage share of total.

**Table 2.5 - Fiscal Years 2005-2010 October & Alternative Forecast  
Virginia 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>Income (% Change)</u>							
Total Personal Income	-October Std.	7.4	6.4	5.2	5.6	5.9	6.2
	-Alt. Low	7.4	6.4	5.2	5.6	5.6	6.3
Real Personal Income	-October Std.	4.4	3.1	2.8	3.3	4.2	4.3
	-Alt. Low	4.4	3.1	2.8	3.1	3.3	3.6
Wages and Salaries (58%)*	-October Std.	7.5	6.2	5.4	5.5	5.2	6.0
	-Alt. Low	7.5	6.2	5.4	5.2	4.5	5.4
Average Wage (Nonag. Employ.)	-October Std.	4.8	4.0	3.9	4.4	3.7	4.1
	-Alt. Low	4.8	4.0	3.9	4.4	3.8	4.0
Dividends, Interest, and Rent (16%)	-October Std.	6.1	6.0	4.2	7.2	7.9	9.3
	-Alt. Low	6.1	6.0	4.2	7.4	6.0	9.9
Supplements to Wages and Salaries (15%)	-October Std.	8.8	6.8	4.8	5.4	6.3	6.7
	-Alt. Low	8.8	6.8	4.8	6.1	8.1	7.8
Proprietor's Income (7%)	-October Std.	11.8	7.2	(0.3)	3.3	7.5	3.4
	-Alt. Low	11.8	7.2	(0.3)	1.4	5.3	0.6
<u>Migration and Housing (Thousands)</u>							
Net Migration	-October Std.	44.4	31.9	35.5	39.4	41.4	42.0
	-Alt. Low	44.4	31.9	35.5	36.9	41.3	42.9
Single Family Housing Starts	-October Std.	51.5	48.2	34.5	29.9	34.0	36.1
	-Alt. Low	51.5	48.2	34.5	28.2	30.6	33.2
Multi-Family Housing Starts	-October Std.	9.0	8.9	5.2	4.2	4.5	4.6
	-Alt. Low	9.0	8.9	5.2	4.0	3.5	3.4

The October Std. forecast from the Department of Taxation is based on Global Insight's October 2007 U.S. standard forecast.

The Alt. Low Forecast from the Department of Taxation is based on Global Insight's October 2007 U.S. alternative low growth U.S. forecast.

\* Represents the percentage share of total.



**SECTION 3  
GENERAL FUND  
REVENUES**

### **Section 3 General Fund Revenues**

#### **Fiscal Year 2007 in Review**

In fiscal year 2007, total general fund revenues rose by 4.9 percent to \$15,565.8 million, falling short of the official forecast (6.5 percent growth) by \$234.4 million. Adjusted for the end of the Accelerated Sales Tax program in fiscal year 2006, total general fund revenues increased 3.8 percent for the year, behind the adjusted annual estimate of 5.4 percent. Table 3.1 on the next page compares actual revenues for fiscal year 2007 with the official forecast. The official revenue forecast was based on the October 2006 Global Insight standard forecast, the corresponding Virginia economic forecast developed by the Department of Taxation, and reflects actions of the 2007 General Assembly.

Withholding and sales tax collections (75 percent of total general fund revenues), the two revenue sources most closely tied to economic activity in the Commonwealth, finished a combined 0.1 percent above forecast. Withholding tax collections slightly outpaced annual expectations while sales tax receipts came in weaker than expected. Taken together, the two sources exceeded expectations by \$15.5 million. The three most volatile revenue sources -- individual nonwithholding, corporate income tax, and wills, suits, deeds, and contracts (primarily recordation tax receipts) finished a combined \$68.7 above forecast, 1.6 percent ahead of the annual forecast for the three sources. A small shortfall in corporate income tax receipts was more than offset by continued strength in nonwithholding payments and recordation tax collections declining less than anticipated. Insurance premiums tax collections finished right on forecast. The major driver of the fiscal year 2007 revenue shortfall was unexpected growth in individual refunds. Individual refunds exceeded the annual estimate by \$222.7 million. Taken together, the five major revenue sources finished \$138.2 million below the annual estimate, a forecast variance of 0.9 percent.

Collections of miscellaneous taxes and other revenues were \$96.2 million below the estimate in fiscal year 2007, a forecast variance of 10.7 percent. A significant shortfall in interest income drove the large forecast variance. Adjusted for this shortfall, collections of miscellaneous taxes and other revenues were 5.5 percent (\$38.8 million) below the annual estimate.

Table 3.2 provides an evolutionary perspective of the fiscal year 2007 forecasts, used by the Governor and General Assembly, in terms of their variance from actual collections. The variance ranged from 9.5 percent in the April 2005 forecast to 0.7 percent in the October 2006 forecast.

# GENERAL FUND REVENUES

**Table 3.1**  
**Fiscal Year 2007 General Fund Collections: Actual and Forecast**  
(Dollars in Millions)

	Fiscal Year 2006		Official Forecast	Fiscal Year 2007			% Growth Over FY 06	
	Actual	% Growth		Actual	Forecast Variance Dollars	Percent	Official	Actual
<b>MAJOR TAX SOURCES</b>								
Corporate Income	\$ 871.6	41.3 %	\$ 901.4	\$ 889.9	\$ (11.5)	(1.3) %	3.4 %	2.1 %
Individual Income Tax:								
Gross	10,591.2	10.5	11,305.9	11,416.9	111.0	1.0	6.7	7.8
Withholding	8,061.0	7.3	8,517.5	8,576.8	59.3	0.7	5.7	6.4
Nonwithholding	2,530.2	22.0	2,788.4	2,840.1	51.7	1.9	10.2	12.2
Refunds	<u>(1,282.6)</u>	<u>3.9</u>	<u>(1,337.1)</u>	<u>(1,559.8)</u>	<u>(222.7)</u>	<u>16.7</u>	<u>4.2</u>	<u>21.6</u>
Net	9,308.6	11.4	9,968.8	9,857.0	(111.8)	(1.1)	7.1	5.9
Insurance Company Premiums	373.8	0.1	384.6	384.9	0.3	0.1	2.9	3.0
State Sales & Use Tax	2,812.7	(4.5)	3,092.9	3,049.1	(43.8)	(1.4)	10.0	8.4
Wills, Suits, Deeds, & Contract Fees	<u>694.7</u>	<u>16.6</u>	<u>554.4</u>	<u>582.9</u>	<u>28.5</u>	<u>5.1</u>	<u>(20.2)</u>	<u>(16.1)</u>
Total Major Tax Sources	\$ 14,061.4	9.1 %	\$ 14,902.1	\$ 14,763.9	\$ (138.2)	(0.9) %	6.0 %	5.0 %
<b>MISCELLANEOUS TAXES AND OTHER REVENUES</b>								
Alcoholic Beverage State Tax	\$ 110.0	7.1 %	\$ 114.4	\$ 118.7	\$ 4.3	3.8 %	4.0 %	7.9 %
Bank Franchise Tax	12.3	16.3	12.9	12.6	(0.3)	(2.5)	4.7	2.0
Beer & Beverage Excise Tax	42.9	2.8	44.0	43.1	(0.9)	(2.0)	2.5	0.4
Corporate Franchise & Charter Fees	46.4	7.7	45.3	47.9	2.6	5.8	(2.3)	3.4
Excess & Other Fees from Officers	(41.6)	(9.7)	(32.0)	(33.1)	(1.1)	3.6	23.1	20.3
Estate & Gifts	160.4	7.0	160.4	152.9	(7.5)	(4.7)	(0.0)	(4.7)
Institutional Revenues	8.2	(10.5)	8.8	7.2	(1.6)	(18.5)	6.9	(12.9)
Interest & Rents	97.1	15.4	197.9	140.4	(57.5)	(29.0)	103.8	44.6
Licenses & Permits	4.8	2.6	4.9	4.8	(0.1)	(1.4)	2.8	1.3
Miscellaneous Taxes and Penalties	202.1	(19.3)	217.7	189.4	(28.3)	(13.0)	7.7	(6.3)
Other Miscellaneous Revenues	40.2	(27.8)	31.3	30.1	(1.2)	(3.9)	(22.2)	(25.2)
Public Service GR / Consumption Tax	<u>90.0</u>	<u>1.9</u>	<u>92.5</u>	<u>88.0</u>	<u>(4.5)</u>	<u>(4.9)</u>	<u>2.8</u>	<u>(2.3)</u>
Total Misc. Taxes and Other Revenues	\$ 772.9	(3.7) %	\$ 898.1	\$ 801.9	\$ (96.2)	(10.7) %	16.2 %	3.7 %
<b>TOTAL GF REVENUES</b>	<b>\$ 14,834.3</b>	<b>8.4 %</b>	<b>\$ 15,800.2</b>	<b>\$ 15,565.8</b>	<b>\$ (234.4)</b>	<b>(1.5) %</b>	<b>6.5 %</b>	<b>4.9 %</b>
<b>TRANSFERS</b>								
A.B.C. Profits	\$ 30.0	20.7 %	\$ 27.3	\$ 27.6	\$ 0.3	0.9 %	(9.1) %	(8.3) %
Lottery Proceeds Fund	454.0	7.2	406.3	434.9	28.6	7.0	(10.5)	(4.2)
Transfers Per Appropriations Act	<u>381.6</u>	<u>31.1</u>	<u>360.8</u>	<u>357.8</u>	<u>(3.0)</u>	<u>(0.8)</u>	<u>(5.5)</u>	<u>(6.2)</u>
Total Transfers	\$ 865.7	17.1 %	\$ 794.4	\$ 820.3	\$ 25.9	3.3 %	(8.2) %	(5.2) %
<b>TOTAL GENERAL FUND</b>	<b>\$ 15,700.0</b>	<b>8.8 %</b>	<b>\$ 16,594.6</b>	<b>\$ 16,386.1</b>	<b>\$ (208.5)</b>	<b>(1.3) %</b>	<b>5.7 %</b>	<b>4.4 %</b>

The Official forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation, and reflects actions of the 2007 General Assembly.

## GENERAL FUND REVENUES

**Table 3.2**  
**Fiscal Year 2007 Actual Collections Over (Under) the Forecast**  
**Percent Variance**

	April 4 2007 Official	Dec 15 2006 Introduced	Oct 25 2006 Official	Dec 16 2005 Introduced	April 6 2005 Official	Dec 17 2004 Introduced
<b>Major Tax Sources (95%)</b>						
Corporate Income (6%)	(1.3) %	(1.3) %	13.0 %	19.2 %	76.1 %	76.1 %
Individual Income (63%)	(1.1)	(1.1)	2.1	2.6	11.6	11.6
Insurance Company Premiums (2%)	0.1	0.1	(7.6)	(7.6)	(15.6)	(15.6)
State Sales & Use Tax (20%)	(1.4)	(1.3)	(3.4)	(3.2)	(3.4)	(3.4)
Wills, Suits, Deeds & Contracts (4%)	5.1	5.1	(0.9)	(11.5)	22.5	22.5
Total Major Tax Sources	(0.9) %	(0.9) %	1.1 %	1.2 %	10.0 %	10.0 %
<b>Miscellaneous Taxes &amp; Other Revenues (5%)</b>	(10.7) %	(10.3) %	(7.1) %	(2.1) %	0.8 %	0.8 %
<b>Total Revenues</b>	(1.5) %	(1.4) %	0.7 %	1.1 %	9.5 %	9.5 %

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

The April 4, 2007 forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia forecast developed by the Department of Taxation and reflects actions of the 2007 General Assembly, Chapter 847.

The December 15, 2006 forecast is based on the October 2006 Global Insight Standard outlook and the corresponding Virginia forecast developed by the Department of Taxation and accompanied the Governor's Budget Bill, HB 1650.

The October 25, 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, Chapter 10.

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.

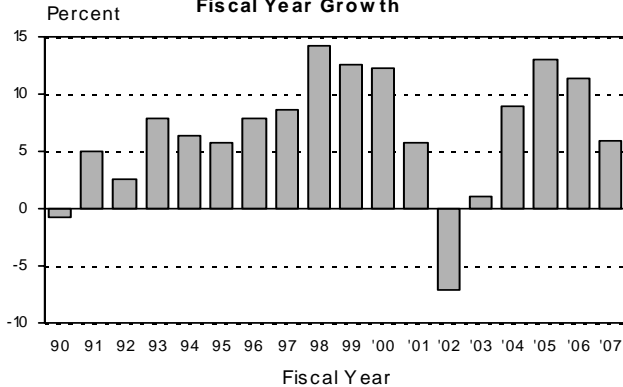
The December 17, 2004 forecast is based on the October 2004 Global Insight Standard outlook and the corresponding Virginia forecast developed by the Department of Taxation and accompanied the Governor's Budget Bill.

### Individual Income Taxes

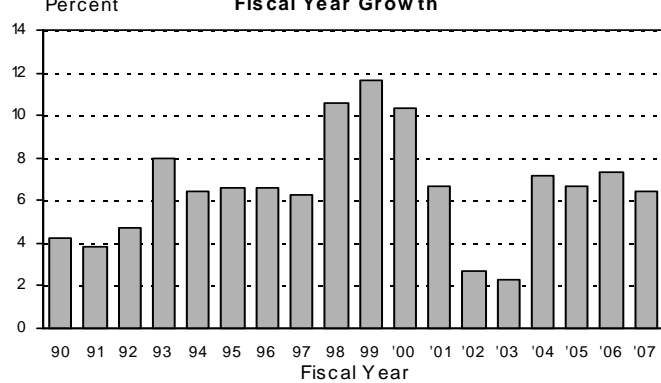
Collections of net individual income taxes grew 5.9 percent in fiscal year 2007, below the annual estimate of 7.1 percent growth. Annual collections were \$111.8 million below the official forecast. The significant slowdown in growth between fiscal year 2006 and fiscal year 2007 was attributable to double-digit growth in individual refunds. The 5.5 percent deceleration is the largest in history outside of an economic recession. The chart on the next page illustrates the growth in net individual payments since fiscal year 1990.

## GENERAL FUND REVENUES

**Figure 3.1**  
Net Individual Income Tax  
Fiscal Year Growth



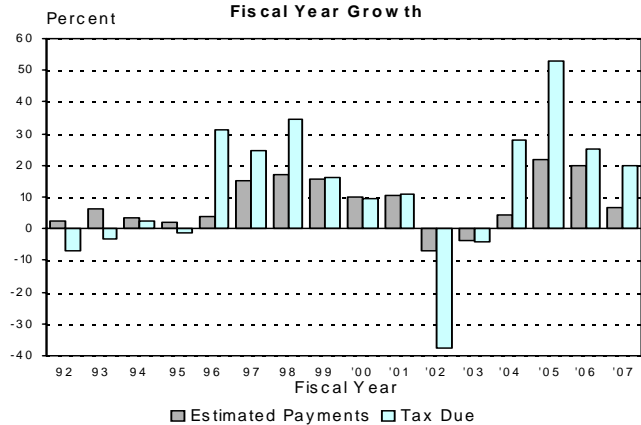
**Figure 3.2**  
Withholding Tax  
Fiscal Year Growth



**Withholding:** In fiscal year 2007, withholding receipts increased by 6.4 percent, 0.7 percentage point ahead of the annual estimate. Collections exceeded the forecast by \$59.3 million. Growth in fiscal year 2007 slowed from the 7.1 percent average of the last three years.

**Nonwithholding:** Collections of nonwithholding exceeded expectations in fiscal year 2007, growing 12.2 percent compared with the forecast of 10.2 percent growth. The \$51.7 million surplus was evenly split between the estimated and final payment components. The continued strength in nonwithholding has been driven by strong gains in non-wage income and the continued healthy performance of financial markets. Over the last four years, total nonwithholding receipts have increased an annual average of 19.6 percent, the highest on record.

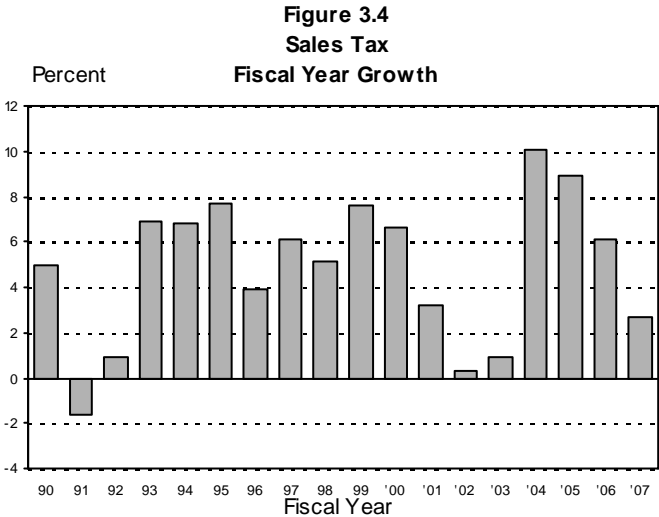
**Figure 3.3**  
Tax Dues and Estimated Payments  
Fiscal Year Growth



**Refunds:** Individual refund processing surpassed expectations in fiscal year 2007, exceeding the annual estimate by \$222.7 million. Growth of 21.6 percent was 17.4 percentage points above the annual estimate. For the filing season beginning January 1st, the Department of Taxation issued about 26,500 more refunds than the prior year and the average refund size was up 11.3 percent compared with the forecast of a five percent increase. The extraordinary growth in refunds during the 2007 filing season was primarily driven by growth in large refunds. A significant portion of this is related to the increasing cost of tax credits, specifically the land preservation tax credit. Land preservation tax credits claimed on individual returns totaled about \$150 million during fiscal year 2007, double the amount anticipated in the individual refund forecast. In addition, anecdotal evidence suggests that the downturn in housing has significantly reduced self-employment income. Overpayment of estimated income taxes during the prior taxable year resulted in large refunds during this filing season.

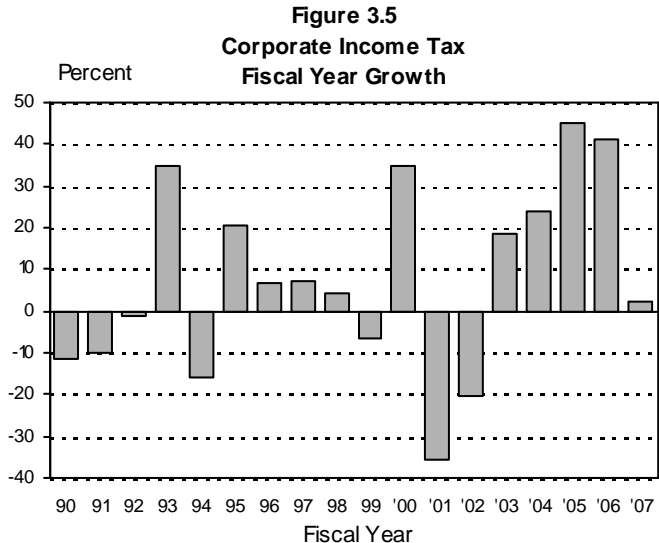
**Sales Taxes**

Collections of sales and use taxes grew 8.4 percent in fiscal year 2007, 1.6 percentage points below the annual estimate, a \$43.8 million shortfall. Growth is overstated due to the end of the Accelerated Sales Tax program in fiscal year 2006. Adjusting for this program, economic-based sales tax collections increased 2.7 percent for the year, below the adjusted annual estimate of a 4.2 percent increase. The slowdown in housing dampened growth in spending on home furnishings and building materials more than expected in the forecast.



**Corporate Income Taxes**

Corporate income tax receipts were slightly weaker than expected in fiscal year 2007, finishing \$11.5 million below the annual estimate with 2.1 percent growth. Gross payments increased 5.0 percent from the prior year compared with the forecast of 4.5 percent growth. The shortfall in net receipts was attributable to stronger-than-expected refund activity. Corporate refunds totaled \$150.7 million, an increase of 25.9 percent over fiscal year 2006 and \$16.0 million ahead of the annual estimate. The forecast expected the slowdown in housing to result in an acceleration in refund activity in fiscal year 2008. It appears that this occurred earlier than anticipated as corporations in the housing industry requested refunds on overpayment of estimated income taxes.

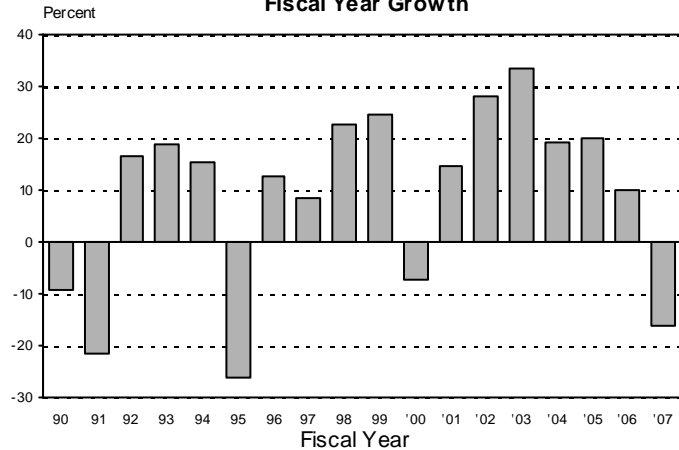


## GENERAL FUND REVENUES

### Wills, Suits, Deeds & Contract Fees

Collections in wills, suits, deeds, and contracts (primarily recordation tax receipts) declined 16.1 percent in fiscal year 2007, slightly better than the forecast of a 20.2 percent decline. From fiscal year 2001 to fiscal year 2006, recordation tax receipts increased with the boom in the housing market, growing an average of 20.6 percent per year. The downturn in the housing market has resulted in declines in volume and a significant deceleration in price growth, increasing the drag on recordation tax collections in fiscal year 2007.

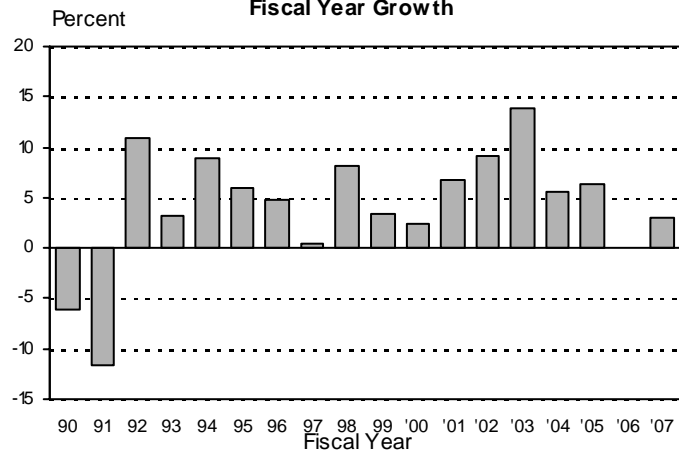
**Figure 3.6**  
**Wills, Suits, Deeds and Contracts**  
**Fiscal Year Growth**



### Insurance Premiums Taxes

Collections of taxes on the premiums of insurance companies were \$384.9 million in fiscal year 2007 -- \$0.3 million above the forecast. Net receipts grew by 3.0 percent, compared with the forecasted growth rate of 2.9 percent.

**Figure 3.7**  
**Insurance Premiums Tax**  
**Fiscal Year Growth**



### Miscellaneous Taxes and Other Revenues

Taken together, all other revenue sources were \$96.2 million below expectations for fiscal year 2007, increasing 3.7 percent compared with the annual estimate of 16.2 percent growth. Interest income was \$57.5 million below projections for the year, primarily due to a significant shift in the ratio of general to non-general fund interest earnings. Fines, forfeitures, and fees finished \$21.4 million below the annual estimate for fiscal year 2007. In addition, inheritance, gift, and estate tax collections were slightly weaker than expected, finishing \$7.5 million below the annual estimate.

**Interest Income**

Table 3.3 below shows a comparison of investible balances, yields, and investment income for fiscal years 2006 and 2007. In fiscal year 2007, net general fund interest on investments totaled \$133.9 million, \$40.0 million over fiscal year 2006. Average investible balances increased 22.7 percent. The average yield increased by 1.35 percentage points to 4.98 percent due to a gradual increase in interest rates.

**Table 3.3**  
**General Fund Interest Income**  
**A Comparison of Actual Collections for Fiscal Years 2006 and 2007**  
(Millions of Dollars)

<u>General Account</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>Change</u>	<u>Percent Change</u>
Average Investable Balances	\$5,836.0	\$7,161.8	\$1,325.8	22.7 %
Collected Yield (%)	3.63%	4.98%	1.35 %	37.2 %
Total Interest Collected	\$211.9	\$356.5	\$144.6	68.2 %
Less: Non-General Funds Transfers	\$118.0	\$222.6	\$104.6	88.6 %
<b>Net General Fund Interest</b>	<b>\$93.9</b>	<b>\$133.9</b>	<b>\$40.0</b>	<b>42.6 %</b>

Note: Management fees on non-general funds totaled \$3.7 million in FY06 and \$5.5 million in FY07.

Table 3.4 shows a comparison of the official forecast and actual results for investible balances, yield, and interest income for fiscal year 2007. Net general fund interest income was \$58.7 million below projections for the year, primarily due to a significant shift in the ratio of general to non-general fund interest earnings.

**Table 3.4**  
**General Fund Interest Income**  
**A Comparison of the Official Forecast to Actual Collections - Fiscal Year 2007**  
(Millions of Dollars)

<u>General Account</u>	<u>Official Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent Variance</u>
Average Investable Balances	\$7,150.7	\$7,161.8	\$11.1	0.2 %
Collected Yield (%)	5.20%	4.98%	(0.22%)	(4.3)%
Total Interest Collected	\$371.8	\$356.5	(\$15.3)	(4.1)%
Less: Non-General Funds Transfers	\$182.2	\$222.6	\$40.4	22.2 %
Net General Fund Interest				
General Funds	\$189.6	\$133.9		
2007 GA Actions	\$3.0			
<b>Total GF Interest Income</b>	<b>\$192.6</b>	<b>\$133.9</b>	<b>(\$58.7)</b>	<b>(31.0)%</b>

The Official forecast is based on the Global Insight October 2006 financial forecast.

Note: Management fees on non-general funds totaled \$5.5 million in FY07 compared with the forecast of \$4.5 million.



## **GENERAL FUND REVENUES**

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### **The August Interim General Fund Forecast for Fiscal Years 2008 through 2010**

Section 2.2-1503.3 of the Code of Virginia requires a reestimate of general fund revenues if the sum of collections of net individual income, sales, and corporate income taxes are 1.0 percent or more below the official forecast based on preliminary estimates. In fiscal year 2007, the 1.0 percent threshold was \$139.6 million. Collectively, receipts in the three sources finished the year \$167.0 million below the forecast.

As part of the reestimation process, the Governor's Advisory Board of Economists (GABE) met in June to discuss the economic outlook for fiscal year 2008 and the next biennium. Recommendations from the Board, primarily upward adjustments to employment and income growth over the next three fiscal years, were incorporated into the Global Insight May 2007 standard economic outlook. This May 2007 GABE interim economic forecast served as the basis for the revised general fund revenue forecast. In addition, the interim forecast incorporated input from the Virginia Housing Market Outlook meeting and was reviewed by the Governor's Advisory Council on Revenue Estimates (GACRE).

Governor Kaine released the interim revenue forecast on August 20, 2007. The forecast for total general fund revenues was revised down by \$406.7 million for fiscal year 2008. When combined with the fiscal year 2007 revenue shortfall, the total projected revenue shortfall for the 2006-2008 biennium was \$641.1 million.

### **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 GABE. 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 2008.

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 revenue forecast with the interim forecast. In the November standard forecast, total general fund revenues have been increased by \$65.1 million in fiscal year 2008. Revenues are expected to increase 3.4 percent for the year. However, this is slightly understated due to the repeal of the estate tax effective July 1, 2007. Underlying revenue growth for fiscal year 2008 is 3.6 percent, following underlying growth of 3.8 percent in fiscal year 2007.

The 2008-2010 biennium has been reduced a total of \$1.2 million from the interim estimate. Growth in fiscal year 2009 is 3.2 percent, however, this is again understated due to the repeal of the estate tax and the impact of Chapter 896 (HB 3202), requiring the Comptroller to transfer one-third of prior year insurance company premiums and \$0.03 of recordation tax to various transportation funds beginning in fiscal year 2009. Underlying revenue growth for fiscal year 2009 is 5.1 percent, slightly behind the interim forecast. Total general fund revenues are projected to increase 6.7 percent in fiscal year 2010, slightly ahead of the interim forecast. Following is an analysis of the November standard general fund revenue forecast.

**Net Individual Income Taxes**

The outlook for net individual income taxes has been revised upward from the interim forecast over the forecast horizon. Downward revisions to withholding have been more than offset by the revised outlook for nonwithholding and individual refunds.

**Withholding**

The withholding revenue model is based on a direct relationship with wages and salaries in Virginia. Growth in wages and salaries is projected to be equal to or weaker than the May GABE forecast, in part due to slightly weaker growth in the professional and business services subsector in Northern Virginia. Taken together with modest growth in first quarter collections (4.7 percent), the withholding forecast has been revised downward. In the November standard revenue forecast, withholding has been reduced by \$49.1 million in fiscal year 2008, growth of 5.4 percent over fiscal year 2007 compared with the interim forecast of 6.0 percent growth. Withholding has been revised down \$35.1 million in fiscal year 2009, growth of 6.2 percent compared with the interim forecast of 6.0 percent. Fiscal year 2010 has been revised down by \$56.6 million, growth of 6.0 percent, below the interim forecast of 6.2 percent growth.

**Nonwithholding**

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

# GENERAL FUND REVENUES

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

November 1, 2007

	Fiscal Year 2008					2006-2008 Biennium		
	Interim Forecast	November Forecast	Change	% Growth Over FY 07 Interim	% Growth Over FY 07 November	Interim Forecast	November Forecast	Change
<b>MAJOR TAX SOURCES</b>								
Corporate Income	\$ 726.2	\$ 747.9	\$ 21.7	(18.4) %	(16.0) %	\$ 1,616.1	\$ 1,637.8	\$ 21.7
Individual Income Tax:								
Gross	12,117.7	12,102.5	(15.2)	6.1	6.0	23,534.6	23,519.4	(15.2)
Withholding	9,091.4	9,042.3	(49.1)	6.0	5.4	17,668.2	17,619.1	(49.1)
Nonwithholding	3,026.3	3,060.2	33.9	6.6	7.8	5,866.4	5,900.3	33.9
Refunds	<u>(1,724.0)</u>	<u>(1,680.6)</u>	<u>43.4</u>	<u>10.5</u>	<u>7.7</u>	<u>(3,283.8)</u>	<u>(3,240.4)</u>	<u>43.4</u>
Net	10,393.7	10,421.9	28.2	5.4	5.7	20,250.7	20,278.9	28.2
Insurance Company Premiums	396.1	403.4	7.3	2.9	4.8	780.9	788.3	7.3
State Sales & Use Tax	3,136.0	3,136.0	0.0	2.8	2.8	6,185.1	6,185.1	0.0
Wills, Suits, Deeds, & Contract Fees	<u>530.5</u>	<u>520.3</u>	<u>(10.2)</u>	<u>(9.0)</u>	<u>(10.7)</u>	<u>1,113.4</u>	<u>1,103.2</u>	<u>(10.2)</u>
Total Major Tax Sources	\$ 15,182.4	\$ 15,229.5	\$ 47.1	2.8 %	3.2 %	\$ 29,946.3	\$ 29,993.4	\$ 47.1
<b>MISCELLANEOUS TAXES AND OTHER REVENUES</b>								
Alcoholic Beverage State Tax	\$ 119.0	\$ 126.0	\$ 7.0	0.2 %	6.1 %	\$ 237.7	\$ 244.7	\$ 7.0
Bank Franchise Tax	13.3	13.1	(0.2)	5.8	4.2	25.9	25.7	(0.2)
Beer & Beverage Excise Tax	44.0	44.0	0.0	2.0	2.0	87.1	87.1	0.0
Corporate Franchise & Charter Fees	46.3	47.9	1.6	(3.4)	(0.1)	94.2	95.8	1.6
Excess & Other Fees from Officers	(32.0)	(29.6)	2.4	3.4	10.7	(65.1)	(62.7)	2.4
Estate & Gifts	129.4	118.5	(10.9)	(15.3)	(22.5)	282.3	271.4	(10.9)
Institutional Revenues	8.8	7.5	(1.3)	22.8	4.6	16.0	14.7	(1.3)
Interest & Rents	137.1	177.8	40.7	(2.4)	26.6	277.5	318.2	40.7
Licenses & Permits	5.0	5.0	0.0	3.5	3.5	9.8	9.8	0.0
Miscellaneous Taxes and Penalties	244.5	232.5	(12.0)	29.1	22.8	433.9	421.9	(12.0)
Other Miscellaneous Revenues	32.8	30.6	(2.2)	9.1	1.7	62.9	60.7	(2.2)
Public Service GR / Consumption Tax	<u>95.1</u>	<u>88.0</u>	<u>(7.1)</u>	<u>8.1</u>	<u>0.0</u>	<u>183.1</u>	<u>176.0</u>	<u>(7.1)</u>
Total Misc. Taxes and Other Revenues	\$ 843.3	\$ 861.3	\$ 18.0	5.2 %	7.4 %	\$ 1,645.2	\$ 1,663.2	\$ 18.0
<b>TOTAL GF REVENUES</b>	<b>\$ 16,025.7</b>	<b>\$ 16,090.8</b>	<b>\$ 65.1</b>	<b>3.0 %</b>	<b>3.4 %</b>	<b>\$ 31,591.5</b>	<b>\$ 31,656.6</b>	<b>\$ 65.1</b>
<b>TRANSFERS</b>								
A.B.C. Profits	\$ 29.1	\$ 34.3	\$ 5.2	5.6 %	24.5 %	\$ 56.7	\$ 61.9	\$ 5.2
Lottery Proceeds Fund	405.4	450.0	44.6	(6.8)	3.5	840.3	884.9	44.6
Transfers Per Appropriations Act	<u>456.3</u>	<u>456.3</u>	<u>0.0</u>	<u>27.5</u>	<u>27.5</u>	<u>814.1</u>	<u>814.1</u>	<u>0.0</u>
Total Transfers	\$ 890.8	\$ 940.6	\$ 49.8	8.6 %	14.7 %	\$ 1,711.1	\$ 1,760.9	\$ 49.8
<b>TOTAL GENERAL FUND</b>	<b>\$ 16,916.5</b>	<b>\$ 17,031.4</b>	<b>\$ 114.9</b>	<b>3.2 %</b>	<b>3.9 %</b>	<b>\$ 33,302.6</b>	<b>\$ 33,417.5</b>	<b>\$ 114.9</b>

The Interim forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates recommendations from the GABE, housing industry experts, and the GACRE.

The November Standard forecast is based on the October 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates recommendations from the GABE.

# GENERAL FUND REVENUES

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

November 1, 2007

	Fiscal Year 2009			% Growth Over FY 08	
	Interim Forecast	November Forecast	Change	Interim	November
<b>MAJOR TAX SOURCES</b>					
Corporate Income	\$ 765.4	\$ 737.4	\$ (28.0)	5.4 %	(1.4) %
Individual Income Tax:					
Gross	12,905.8	12,881.1	(24.7)	6.5	6.4
Withholding	9,636.9	9,601.8	(35.1)	6.0	6.2
Nonwithholding	3,268.9	3,279.3	10.4	8.0	7.2
Refunds	<u>(1,839.1)</u>	<u>(1,795.3)</u>	<u>43.8</u>	<u>6.7</u>	<u>6.8</u>
Net	11,066.7	11,085.8	19.1	6.5	6.4
Insurance Company Premiums	284.2	284.2	(0.0)	(28.2)	(29.5)
State Sales & Use Tax	3,302.1	3,300.9	(1.2)	5.3	5.3
Wills, Suits, Deeds, & Contract Fees	<u>446.2</u>	<u>449.4</u>	<u>3.2</u>	<u>(15.9)</u>	<u>(13.6)</u>
Total Major Tax Sources	\$ 15,864.7	\$ 15,857.7	\$ (6.9)	4.5 %	4.1 %
<b>MISCELLANEOUS TAXES AND OTHER REVENUES</b>					
Alcoholic Beverage State Tax	\$ 123.8	\$ 131.0	\$ 7.2	4.0 %	4.0 %
Bank Franchise Tax	13.7	13.5	(0.2)	3.0	3.1
Beer & Beverage Excise Tax	44.0	44.0	0.0	0.0	0.0
Corporate Franchise & Charter Fees	46.3	47.9	1.6	0.0	0.0
Excess & Other Fees from Officers	(33.0)	(28.1)	4.9	(3.1)	5.1
Estate & Gifts	0.0	0.0	0.0	n/a	n/a
Institutional Revenues	8.8	7.5	(1.3)	0.0	0.0
Interest & Rents	171.9	164.8	(7.1)	25.4	(7.3)
Licenses & Permits	5.0	5.0	0.0	0.0	0.0
Miscellaneous Taxes and Penalties	245.3	240.5	(4.8)	0.3	3.5
Other Miscellaneous Revenues	35.6	31.4	(4.2)	8.5	2.6
Public Service GR / Consumption Tax	<u>97.7</u>	<u>88.9</u>	<u>(8.8)</u>	<u>2.7</u>	<u>1.0</u>
Total Misc. Taxes and Other Revenues	\$ 759.1	\$ 746.4	\$ (12.7)	(10.0) %	(13.3) %
<b>TOTAL GF REVENUES</b>	<b>\$ 16,623.8</b>	<b>\$ 16,604.2</b>	<b>\$ (19.6)</b>	<b>3.7 %</b>	<b>3.2 %</b>
<b>TRANSFERS</b>					
A.B.C. Profits	\$ 29.1	\$ 34.6	\$ 5.5	0.0 %	0.9 %
Lottery Proceeds Fund	405.4	450.0	44.6	0.0	0.0
Transfers Per Appropriations Act	<u>341.4</u>	<u>341.4</u>	<u>0.0</u>	<u>(25.2)</u>	<u>(25.2)</u>
Total Transfers	\$ 775.9	\$ 826.0	\$ 50.1	(12.9) %	(12.2) %
<b>TOTAL GENERAL FUND</b>	<b>\$ 17,399.7</b>	<b>\$ 17,430.2</b>	<b>\$ 30.5</b>	<b>2.9 %</b>	<b>2.3 %</b>

The Interim forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates recommendations from the GABE, housing industry experts, and the GACRE.

The November Standard forecast is based on the October 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates recommendations from the GABE.

Chapter 896 (HB 3202) requires the Comptroller to deposit one-third of insurance company premiums tax collected in the most recently ended fiscal year and the revenues collected from \$0.03 of the recordation tax to various transportation funds beginning in FY09.

# GENERAL FUND REVENUES

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

November 1, 2007

	Fiscal Year 2010					2008-2010 Biennium		
	Interim Forecast	November Forecast	Change	% Growth Over FY 09 Interim      November		Interim Forecast	November Forecast	Change
<b>MAJOR TAX SOURCES</b>								
Corporate Income	\$ 796.0	\$ 777.6	\$ (18.4)	4.0 %	5.5 %	\$ 1,561.4	\$ 1,515.0	\$ (46.4)
Individual Income Tax:								
Gross	13,736.2	13,723.2	(13.0)	6.4	6.5	26,642.0	26,604.3	(37.7)
Withholding	10,234.4	10,177.8	(56.6)	6.2	6.0	19,871.2	19,779.6	(91.6)
Nonwithholding	3,501.8	3,545.4	43.6	7.1	8.1	6,770.8	6,824.7	53.9
Refunds	<u>(1,877.3)</u>	<u>(1,833.2)</u>	<u>44.1</u>	<u>2.1</u>	<u>2.1</u>	<u>(3,716.4)</u>	<u>(3,628.5)</u>	<u>87.9</u>
Net	11,858.9	11,890.0	31.1	7.2	7.3	22,925.6	22,975.8	50.2
Insurance Company Premiums	297.1	305.9	8.9	4.5	7.6	581.3	590.2	8.9
State Sales & Use Tax	3,483.8	3,488.7	4.9	5.5	5.7	6,785.9	6,789.6	3.7
Wills, Suits, Deeds, & Contract Fees	<u>486.3</u>	<u>489.8</u>	<u>3.5</u>	<u>9.0</u>	<u>9.0</u>	<u>932.5</u>	<u>939.2</u>	<u>6.7</u>
Total Major Tax Sources	\$ 16,922.1	\$ 16,952.1	\$ 30.0	6.7 %	6.9 %	\$ 32,786.8	\$ 32,809.8	\$ 23.0
<b>MISCELLANEOUS TAXES AND OTHER REVENUES</b>								
Alcoholic Beverage State Tax	\$ 128.7	\$ 136.0	\$ 7.3	4.0 %	3.8 %	\$ 252.5	\$ 267.0	\$ 14.5
Bank Franchise Tax	14.1	13.9	(0.2)	2.9	3.0	27.8	27.4	(0.4)
Beer & Beverage Excise Tax	44.0	44.0	0.0	0.0	0.0	88.0	88.0	0.0
Corporate Franchise & Charter Fees	46.3	47.9	1.6	0.0	0.0	92.6	95.8	3.2
Excess & Other Fees from Officers	(33.0)	(30.6)	2.4	0.0	(8.9)	(66.0)	(58.7)	7.3
Estate & Gifts	0.0	0.0	0.0	n/a	n/a	0.0	0.0	0.0
Institutional Revenues	8.8	7.5	(1.3)	0.0	0.0	17.6	15.0	(2.6)
Interest & Rents	180.9	170.8	(10.1)	5.2	3.6	352.8	335.6	(17.2)
Licenses & Permits	5.0	5.0	0.0	0.0	0.0	10.0	10.0	0.0
Miscellaneous Taxes and Penalties	246.2	248.9	2.7	0.4	3.5	491.5	489.4	(2.1)
Other Miscellaneous Revenues	36.3	32.1	(4.2)	2.0	2.2	71.9	63.5	(8.4)
Public Service GR / Consumption Tax	<u>100.5</u>	<u>90.7</u>	<u>(9.8)</u>	<u>2.9</u>	<u>2.0</u>	<u>198.2</u>	<u>179.6</u>	<u>(18.6)</u>
Total Misc. Taxes and Other Revenues	\$ 777.8	\$ 766.2	\$ (11.6)	2.5 %	2.6 %	\$ 1,536.9	\$ 1,512.6	\$ (24.3)
<b>TOTAL GF REVENUES</b>	<b>\$ 17,699.9</b>	<b>\$ 17,718.2</b>	<b>\$ 18.4</b>	<b>6.5 %</b>	<b>6.7 %</b>	<b>\$ 34,323.7</b>	<b>\$ 34,322.4</b>	<b>\$ (1.2)</b>
<b>TRANSFERS</b>								
A.B.C. Profits	\$ 29.1	\$ 34.5	\$ 5.4	0.0 %	(0.3) %	\$ 58.2	\$ 69.1	\$ 10.9
Lottery Proceeds Fund	405.4	450.0	44.6	0.0	0.0	810.8	900.0	89.2
Transfers Per Appropriations Act	<u>339.4</u>	<u>339.4</u>	<u>0.0</u>	<u>(0.6)</u>	<u>(0.6)</u>	<u>680.8</u>	<u>680.8</u>	<u>0.0</u>
Total Transfers	\$ 773.9	\$ 823.9	\$ 50.0	(0.3) %	(0.3) %	\$ 1,549.8	\$ 1,649.9	\$ 100.1
<b>TOTAL GENERAL FUND</b>	<b>\$ 18,473.8</b>	<b>\$ 18,542.1</b>	<b>\$ 68.4</b>	<b>6.2 %</b>	<b>6.4 %</b>	<b>\$ 35,873.5</b>	<b>\$ 35,972.3</b>	<b>\$ 98.9</b>

The Interim forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates recommendations from the GABE, housing industry experts, and the GACRE.

The November Standard forecast is based on the October 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates recommendations from the GABE.

Chapter 896 (HB 3202) requires the Comptroller to deposit one-third of insurance company premiums tax collected in the most recently ended fiscal year and the revenues collected from \$0.03 of the recordation tax to various transportation funds beginning in FY09.

Healthy growth in first quarter collections and slightly stronger growth in financial markets and non-wage income result in upward revisions in nonwithholding over the next three years. In the November standard revenue forecast, nonwithholding is \$33.9 million higher than the interim estimate in fiscal year 2008, growth of 7.8 percent over fiscal year 2007 compared with the interim forecast of 6.6 percent. Nonwithholding receipts are expected to grow 7.2 percent in fiscal year 2009 compared with the interim forecast of 8.0 percent, increasing \$10.4 million from the interim forecast. Fiscal year 2010 has been revised up by \$43.6 million, growth of 8.1 percent, slightly ahead of the interim forecast of 7.1 percent.

### Refunds

In response to the significant forecast variance for individual refunds in fiscal year 2007, staff developed alternative refund forecasting methodologies during the interim forecasting process to more accurately assess the impact of overpayment of estimated income taxes and the accelerating cost of tax credits. The revised refund methodology incorporates nonwithholding along with withholding, comparing taxable year individual income tax with taxable year refunds for the first and second half of a taxable year. The revised methodology also explicitly considers the land preservation tax credit and low-income credit. Actual historic data are adjusted for these credits. Future values for these credits are estimated and these amounts are added to the base refund forecast.

About two-thirds of the downward revision to total revenues in the interim revenue forecast was attributable to increased projections for individual refunds. The revision was based on a combination of higher base refunds due to overpayment of estimated income taxes and the increasing value of the land preservation tax credit. The interim forecast assumed that land preservation tax credits claimed on individual returns would total \$200.0 million in fiscal year 2008, \$225.0 million in fiscal year 2009, and \$170.0 million in fiscal year 2010. Outstanding land preservation tax credits for tax year 2006 and prior tax years were expected to be fully utilized by fiscal year 2010, with the \$100 million cap amount limiting activity beginning in fiscal year 2011.

A double-digit decline in the first quarter of the year and updated income tax estimates suggest a downward revision over the forecast horizon, resulting in an increase in revenues. In the November standard revenue forecast, individual refunds are projected to increase 7.7 percent in fiscal year 2008 from fiscal year 2007 levels. The forecast for the year has been reduced by \$43.4 million compared with the interim forecast. In fiscal year 2009, individual refunds have been reduced \$43.8 million, growth of 6.8 percent. Fiscal year 2010 is \$44.1 million lower than the interim estimate, growth of 2.1 percent. The outlook for the land preservation tax credit is unchanged from the interim revenue forecast.

## **GENERAL FUND REVENUES**

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### **Sales**

The sales tax revenue model is based on a direct relationship with personal income in Virginia. Growth in personal income is essentially unchanged from the May GABE forecast. First quarter collections for fiscal year 2008 increased 3.1 percent from the prior year, near the interim estimate. The fallout in housing and higher energy prices continue to be a drag on consumer spending, resulting in persistent weakness in collections. In the November standard revenue forecast, sales tax collections are unchanged for fiscal year 2008, with growth of 2.8 percent over fiscal year 2007. Collections have been revised down by \$1.2 million in fiscal year 2009, growth of 5.3 percent, the same as the interim forecast. Fiscal year 2010 has been revised up by \$4.9 million, growth of 5.7 percent, slightly ahead of the interim forecast of 5.5 percent growth.

### **Corporate**

The corporate revenue model considers gross payments and refunds separately. Gross payments are modeled as a function of Virginia specific pre-tax corporate profits and S&P 500 index. Refunds are driven by the historical ratio of gross payments to refund activity. Growth in net corporate income tax receipts for the first quarter of fiscal year 2008 was slightly ahead of the interim forecast. As with the interim forecast, the November standard forecast relies on the U.S. alternative low-growth scenario in an attempt to better capture the projected downturn in corporate income tax receipts from the slowdown in the housing market. In addition, the forecast anticipates a significant increase in refund activity as home builders, construction supply companies, and mortgage bankers request refunds on overpayment of estimated income taxes.

In the November standard revenue forecast, corporate income tax has been increased by \$21.7 million in fiscal year 2008, a decline of 16.0 percent from fiscal year 2007 compared with the interim forecast of an 18.4 percent decline. Collections have been revised down by \$28.0 million in fiscal year 2009, a decline of 1.4 percent compared with the interim forecast of 5.4 percent growth. Fiscal year 2010 has been revised down by \$18.4 million, growth of 5.5 percent, slightly ahead of the interim forecast of 4.0 percent growth.

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

The revenue model for recordation tax is based on refinancing activity, median home prices, and the yield on 30-year treasury bonds. The outlook for recordation drives other components of the source. The consensus of attendees of the Virginia Housing Market Outlook meeting in July was that volumes would approximate 2001 levels with no significant decline in the average sale price. Taken together, this suggested a decline of 9.0 percent in fiscal year 2008.

Recordation tax collections were weaker than expected in the first quarter of the year, declining 13.3 percent. In the November standard revenue forecast, wills has been reduced \$10.2 million in fiscal year 2008, a decline of 10.7 percent from fiscal year 2007. Collections have been revised up by \$3.2 million in fiscal year 2009, a decline of 13.6 percent compared with the interim forecast of a 15.9 percent decline. However, this is overstated due to the impact of Chapter 896 (HB 3202), requiring the Comptroller to deposit the revenues collected from \$0.03 of the recordation tax to various transportation funds beginning in fiscal year 2009. Adjusted for this transfer, collections for fiscal year 2009 are projected to decline 3.3 percent. Fiscal year 2010 has been revised up by \$3.5 million, growth of 9.0 percent, matching the interim forecast.

### **Insurance Premiums Tax**

The insurance premiums tax forecast has been revised up slightly over the next three years. The November standard revenue forecast for fiscal year 2008 is \$7.3 million above the interim forecast. For the fiscal year 2008-2010 biennium, insurance premiums tax collections have been revised up a combined \$8.9 million.

The significant decline in collections in fiscal year 2009 is due to the impact of Chapter 896 (HB 3202), requiring the Comptroller to deposit one-third of insurance company premiums tax collected in the most recently ended fiscal year to the Priority Transportation Fund. Underlying growth for fiscal year 2009 is 3.8 percent. Collections in fiscal year 2010 are expected to increase 6.4 percent after adjusting for the projected transfer amount.

### **Miscellaneous Taxes and Other Revenues**

Taken together, all other revenues sources have been revised as follows: increased \$18.0 million in fiscal year 2008, reduced \$12.7 million in fiscal year 2009, and reduced \$11.6 million in fiscal year 2010. Major changes include: 1) interest on delinquent taxes and fines, forfeitures, and fees have been revised to reflect the misallocation of penalty and interest over the last two years, and 2) public service has been revised down to reflect the revenue shortfall in fiscal year 2007 and weaker first quarter collections.

As incorporated into the interim forecast, Chapter 5 (SB 5019, 2006 Special Session I) repeals the estate tax effective July 1, 2007. The November standard forecast assumes that there will be a three-month effect (loss) in fiscal year 2008 followed by no collections for fiscal year 2009 and beyond. The forecast incorporates a downward revision to inheritance, gift, and estate of \$10.9 million in fiscal year 2008 based on collection trends through the first quarter of the year.

### **Interest Income**

Interest income is determined by investible balances and the composite yield on investments in the General Account. Table 3.6 on the following page shows actual collections for fiscal year 2007 and the interim and November forecast for fiscal years 2008 through 2010.



## GENERAL FUND REVENUES

**Table 3.6**  
Interest Income Forecast -- Treasury  
(Millions of Dollars)

<u>General Account</u>	<u>FY 2007</u>	<u>FY 2008</u>		<u>FY 2009</u>		<u>FY 2010</u>	
	<u>Actual</u>	Aug-07 Interim Forecast	Nov-07 GACRE Forecast	Aug-07 Interim Forecast	Nov-07 GACRE Forecast	Aug-07 Interim Forecast	Nov-07 GACRE Forecast
<b>Average Investible Balances</b>	7,161.8	7,382.1	7,382.1	7,520.0	7,520.0	7,600.0	7,600.0
General Fund	38%	33%	33%	35%	35%	37%	37%
Non-General Funds	62%	67%	67%	65%	65%	63%	63%
<b>Balances Retaining Interest</b>							
General Fund	2,689.9	2,436.1	2,436.1	2,632.0	2,632.0	2,812.0	2,812.0
Non-General Funds	4,471.9	4,946.0	4,946.0	4,888.0	4,888.0	4,788.0	4,788.0
<b>Collected Yield (%)</b>	4.98%	5.00%	5.00%	5.00%	4.20%	5.00%	4.30%
<b>Total Interest Income</b>	356.5	369.1	369.1	376.0	315.8	380.0	326.8
<b>Transfers: Non-General Funds</b>	222.6	247.3	247.3	244.4	205.3	239.4	205.9
<b>Net General Fund</b>	133.9	121.8	121.8	131.6	110.5	140.6	120.9
Gen Assembly Actions			-4.5				
Budget Reduction Impact			20.2		14.0		9.6
<b>Total GF Interest Income</b>	<b>133.9</b>	<b>121.8</b>	<b>137.5</b>	<b>131.6</b>	<b>124.5</b>	<b>140.6</b>	<b>130.5</b>

The November forecast incorporates the interest revenue impact associated with the Governor's budget reduction plan. In addition, yields have been reduced from the interim forecast for fiscal years 2009 and 2010 in line with recent Federal Reserve actions. Along with interest on delinquent taxes (projected to total \$40.0 million per year over the forecast horizon), total general fund interest income is expected to be \$177.5 million in fiscal year 2008, \$40.7 million above the interim forecast. Interest revenue is expected to total \$164.5 million in fiscal year 2009 and \$170.5 million in fiscal year 2010, a combined \$17.2 million below the interim forecast. Of note, management fees on non-general funds are projected to total \$5.9 million in fiscal year 2008, \$4.9 million in fiscal year 2009, and \$4.8 million in fiscal year 2010.

### **Alternative General Fund Revenue Forecast for Fiscal Years 2008 to 2010**

Table 3.7 on the following pages compares the interim and November alternative low-growth general fund forecasts. Overall, the slightly weaker prospects for employment and income growth and the more dismal outlook for housing result in downward revisions to total general fund revenues from the interim forecast as follows: fiscal year 2008 -\$161.7 million, fiscal year 2009 -\$441.0 million, and fiscal year 2010 -\$546.7 million.

# GENERAL FUND REVENUES

**Table 3.7**  
**The Interim and November Alternative Low Growth General Fund Forecast for Fiscal Year 2008**  
(Dollars in Millions)

November 1, 2007

	Fiscal Year 2008					2006-2008 Biennium		
	Interim Forecast	Nov Low Forecast	Change	% Growth Over FY 07 Interim      Nov Low		Interim Forecast	Nov Low Forecast	Change
<b>MAJOR TAX SOURCES</b>								
Corporate Income	\$ 726.2	\$ 710.0	\$ (16.2)	(18.4) %	(20.2) %	\$ 1,616.1	\$ 1,599.9	\$ (16.2)
Individual Income Tax:								
Gross	12,117.7	12,008.1	(109.6)	6.1	5.2	23,534.6	23,425.0	(109.6)
Withholding	9,091.4	9,010.6	(80.8)	6.0	5.1	17,668.2	17,587.4	(80.8)
Nonwithholding	3,026.3	2,997.5	(28.8)	6.6	5.5	5,866.4	5,837.6	(28.8)
Refunds	<u>(1,724.0)</u>	<u>(1,701.8)</u>	<u>22.2</u>	<u>10.5</u>	<u>9.1</u>	<u>(3,283.8)</u>	<u>(3,261.6)</u>	<u>22.2</u>
Net	10,393.7	10,306.3	(87.4)	5.4	4.6	20,250.7	20,163.3	(87.4)
Insurance Company Premiums	396.1	393.4	(2.7)	2.9	2.2	780.9	778.3	(2.7)
State Sales & Use Tax	3,136.0	3,121.8	(14.1)	2.8	2.4	6,185.1	6,171.0	(14.1)
Wills, Suits, Deeds, & Contract Fees	<u>530.5</u>	<u>471.2</u>	<u>(59.3)</u>	<u>(9.0)</u>	<u>(19.2)</u>	<u>1,113.4</u>	<u>1,054.1</u>	<u>(59.3)</u>
Total Major Tax Sources	\$ 15,182.4	\$ 15,002.7	\$ (179.7)	2.8 %	1.6 %	\$ 29,946.3	\$ 29,766.6	\$ (179.7)
<b>MISCELLANEOUS TAXES AND OTHER REVENUES</b>								
Alcoholic Beverage State Tax	\$ 119.0	\$ 126.0	\$ 7.0	0.2 %	6.1 %	\$ 237.7	\$ 244.7	\$ 7.0
Bank Franchise Tax	13.3	13.1	(0.2)	5.8	4.2	25.9	25.7	(0.2)
Beer & Beverage Excise Tax	44.0	44.0	0.0	2.0	2.0	87.1	87.1	0.0
Corporate Franchise & Charter Fees	46.3	47.9	1.6	(3.4)	(0.1)	94.2	95.8	1.6
Excess & Other Fees from Officers	(32.0)	(29.6)	2.4	3.4	10.7	(65.1)	(62.7)	2.4
Estate & Gifts	129.4	118.5	(10.9)	(15.3)	(22.5)	282.3	271.4	(10.9)
Institutional Revenues	8.8	7.5	(1.3)	22.8	4.6	16.0	14.7	(1.3)
Interest & Rents	137.1	177.8	40.7	(2.4)	26.6	277.5	318.2	40.7
Licenses & Permits	5.0	5.0	0.0	3.5	3.5	9.8	9.8	0.0
Miscellaneous Taxes and Penalties	244.5	232.5	(12.0)	29.1	22.8	433.9	421.9	(12.0)
Other Miscellaneous Revenues	32.8	30.6	(2.2)	9.1	1.7	62.9	60.7	(2.2)
Public Service GR / Consumption Tax	<u>95.1</u>	<u>88.0</u>	<u>(7.1)</u>	<u>8.1</u>	<u>0.0</u>	<u>183.1</u>	<u>176.0</u>	<u>(7.1)</u>
Total Misc. Taxes and Other Revenues	\$ 843.3	\$ 861.3	\$ 18.0	5.2 %	7.4 %	\$ 1,645.2	\$ 1,663.2	\$ 18.0
<b>TOTAL GF REVENUES</b>	<b>\$ 16,025.7</b>	<b>\$ 15,864.0</b>	<b>\$ (161.7)</b>	<b>3.0 %</b>	<b>1.9 %</b>	<b>\$ 31,591.5</b>	<b>\$ 31,429.8</b>	<b>\$ (161.7)</b>
<b>TRANSFERS</b>								
A.B.C. Profits	\$ 29.1	\$ 34.3	\$ 5.2	5.6 %	24.5 %	\$ 56.7	\$ 61.9	\$ 5.2
Lottery Proceeds Fund	405.4	450.0	44.6	(6.8)	3.5	840.3	884.9	44.6
Transfers Per Appropriations Act	<u>456.3</u>	<u>456.3</u>	<u>0.0</u>	<u>27.5</u>	<u>27.5</u>	<u>814.1</u>	<u>814.1</u>	<u>0.0</u>
Total Transfers	\$ 890.8	\$ 940.6	\$ 49.8	8.6 %	14.7 %	\$ 1,711.1	\$ 1,760.9	\$ 49.8
<b>TOTAL GENERAL FUND</b>	<b>\$ 16,916.5</b>	<b>\$ 16,804.6</b>	<b>\$ (111.9)</b>	<b>3.2 %</b>	<b>2.6 %</b>	<b>\$ 33,302.6</b>	<b>\$ 33,190.7</b>	<b>\$ (111.9)</b>

The Interim forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates recommendations from the GABE, housing industry experts, and the GACRE.

The November Alternative Low Growth forecast is based on the October 2007 Global Insight Alternative Low Growth outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

# GENERAL FUND REVENUES

**Table 3.7**  
**The Interim and November Alternative Low Growth General Fund Forecast for Fiscal Year 2009**  
(Dollars in Millions)

November 1, 2007

	Fiscal Year 2009				
	Interim Forecast	Nov Low Forecast	Change	% Growth Over FY 08 Interim	Nov Low
<b>MAJOR TAX SOURCES</b>					
Corporate Income	\$ 765.4	\$ 714.5	\$ (50.9)	5.4 %	0.6 %
Individual Income Tax:					
Gross	12,905.8	12,582.3	(323.5)	6.5	4.8
Withholding	9,636.9	9,545.2	(91.7)	6.0	5.9
Nonwithholding	3,268.9	3,037.1	(231.8)	8.0	1.3
Refunds	<u>(1,839.1)</u>	<u>(1,782.1)</u>	<u>57.0</u>	<u>6.7</u>	<u>4.7</u>
Net	11,066.7	10,800.3	(266.4)	6.5	4.8
Insurance Company Premiums	284.2	287.6	3.3	(28.2)	(26.9)
State Sales & Use Tax	3,302.1	3,276.9	(25.2)	5.3	5.0
Wills, Suits, Deeds, & Contract Fees	<u>446.2</u>	<u>357.1</u>	<u>(89.1)</u>	<u>(15.9)</u>	<u>(24.2)</u>
Total Major Tax Sources	\$ 15,864.7	\$ 15,436.3	\$ (428.4)	4.5 %	2.9 %
<b>MISCELLANEOUS TAXES AND OTHER REVENUES</b>					
Alcoholic Beverage State Tax	\$ 123.8	\$ 131.0	\$ 7.2	4.0 %	4.0 %
Bank Franchise Tax	13.7	13.5	(0.2)	3.0	3.1
Beer & Beverage Excise Tax	44.0	44.0	0.0	0.0	0.0
Corporate Franchise & Charter Fees	46.3	47.9	1.6	0.0	0.0
Excess & Other Fees from Officers	(33.0)	(28.1)	4.9	(3.1)	5.1
Estate & Gifts	0.0	0.0	0.0	n/a	n/a
Institutional Revenues	8.8	7.5	(1.3)	0.0	0.0
Interest & Rents	171.9	164.8	(7.1)	25.4	(7.3)
Licenses & Permits	5.0	5.0	0.0	0.0	0.0
Miscellaneous Taxes and Penalties	245.3	240.5	(4.8)	0.3	3.5
Other Miscellaneous Revenues	35.6	31.4	(4.2)	8.5	2.6
Public Service GR / Consumption Tax	<u>97.7</u>	<u>88.9</u>	<u>(8.8)</u>	<u>2.7</u>	<u>1.0</u>
Total Misc. Taxes and Other Revenues	\$ 759.1	\$ 746.4	\$ (12.7)	(10.0) %	(13.3) %
<b>TOTAL GF REVENUES</b>	<b>\$ 16,623.8</b>	<b>\$ 16,182.7</b>	<b>\$ (441.0)</b>	<b>3.7 %</b>	<b>2.0 %</b>
<b>TRANSFERS</b>					
A.B.C. Profits	\$ 29.1	\$ 34.6	\$ 5.5	0.0 %	0.9 %
Lottery Proceeds Fund	405.4	450.0	44.6	0.0	0.0
Transfers Per Appropriations Act	<u>341.4</u>	<u>341.4</u>	<u>0.0</u>	<u>(25.2)</u>	<u>(25.2)</u>
Total Transfers	\$ 775.9	\$ 826.0	\$ 50.1	(12.9) %	(12.2) %
<b>TOTAL GENERAL FUND</b>	<b>\$ 17,399.7</b>	<b>\$ 17,008.7</b>	<b>\$ (390.9)</b>	<b>2.9 %</b>	<b>1.2 %</b>

The Interim forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates recommendations from the GABE, housing industry experts, and the GACRE.

The November Alternative Low Growth forecast is based on the October 2007 Global Insight Alternative Low Growth outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

Chapter 896 (HB 3202) requires the Comptroller to deposit one-third of insurance company premiums tax collected in the most recently ended fiscal year and the revenues collected from \$0.03 of the recordation tax to various transportation funds beginning in FY09.

# GENERAL FUND REVENUES

**Table 3.7**  
**The Interim and November Alternative Low Growth General Fund Forecast for Fiscal Year 2010**  
(Dollars in Millions)

November 1, 2007

	Fiscal Year 2010					2008-2010 Biennium		
	Interim Forecast	Nov Low Forecast	Change	% Growth Over FY 09 Interim      Nov Low		Interim Forecast	Nov Low Forecast	Change
<b>MAJOR TAX SOURCES</b>								
Corporate Income	\$ 796.0	\$ 754.1	\$ (42.0)	4.0 %	5.5 %	\$ 1,561.4	\$ 1,468.5	\$ (92.9)
Individual Income Tax:								
Gross	13,736.2	13,343.3	(392.9)	6.4	6.0	26,642.0	25,925.6	(716.4)
Withholding	10,234.4	10,110.8	(123.6)	6.2	5.9	19,871.2	19,656.0	(215.2)
Nonwithholding	3,501.8	3,232.5	(269.4)	7.1	6.4	6,770.8	6,269.6	(501.1)
Refunds	<u>(1,877.3)</u>	<u>(1,801.2)</u>	<u>76.1</u>	<u>2.1</u>	<u>1.1</u>	<u>(3,716.4)</u>	<u>(3,583.2)</u>	<u>133.2</u>
Net	11,858.9	11,542.1	(316.8)	7.2	6.9	22,925.6	22,342.4	(583.2)
Insurance Company Premiums	297.1	295.9	(1.1)	4.5	2.9	581.3	583.5	2.2
State Sales & Use Tax	3,483.8	3,466.8	(16.9)	5.5	5.8	6,785.9	6,743.7	(42.2)
Wills, Suits, Deeds, & Contract Fees	<u>486.3</u>	<u>328.1</u>	<u>(158.3)</u>	<u>9.0</u>	<u>(8.1)</u>	<u>932.5</u>	<u>685.1</u>	<u>(247.4)</u>
<b>Total Major Tax Sources</b>	<b>\$ 16,922.1</b>	<b>\$ 16,387.0</b>	<b>\$ (535.1)</b>	<b>6.7 %</b>	<b>6.2 %</b>	<b>\$ 32,786.8</b>	<b>\$ 31,823.3</b>	<b>\$ (963.4)</b>
<b>MISCELLANEOUS TAXES AND OTHER REVENUES</b>								
Alcoholic Beverage State Tax	\$ 128.7	\$ 136.0	\$ 7.3	4.0 %	3.8 %	\$ 252.5	\$ 267.0	\$ 14.5
Bank Franchise Tax	14.1	13.9	(0.2)	2.9	3.0	27.8	27.4	(0.4)
Beer & Beverage Excise Tax	44.0	44.0	0.0	0.0	0.0	88.0	88.0	0.0
Corporate Franchise & Charter Fees	46.3	47.9	1.6	0.0	0.0	92.6	95.8	3.2
Excess & Other Fees from Officers	(33.0)	(30.6)	2.4	0.0	(8.9)	(66.0)	(58.7)	7.3
Estate & Gifts	0.0	0.0	0.0	n/a	n/a	0.0	0.0	0.0
Institutional Revenues	8.8	7.5	(1.3)	0.0	0.0	17.6	15.0	(2.6)
Interest & Rents	180.9	170.8	(10.1)	5.2	3.6	352.8	335.6	(17.2)
Licenses & Permits	5.0	5.0	0.0	0.0	0.0	10.0	10.0	0.0
Miscellaneous Taxes and Penalties	246.2	248.9	2.7	0.4	3.5	491.5	489.4	(2.1)
Other Miscellaneous Revenues	36.3	32.1	(4.2)	2.0	2.2	71.9	63.5	(8.4)
Public Service GR / Consumption Tax	<u>100.5</u>	<u>90.7</u>	<u>(9.8)</u>	<u>2.9</u>	<u>2.0</u>	<u>198.2</u>	<u>179.6</u>	<u>(18.6)</u>
<b>Total Misc. Taxes and Other Revenues</b>	<b>\$ 777.8</b>	<b>\$ 766.2</b>	<b>\$ (11.6)</b>	<b>2.5 %</b>	<b>2.6 %</b>	<b>\$ 1,536.9</b>	<b>\$ 1,512.6</b>	<b>\$ (24.3)</b>
<b>TOTAL GF REVENUES</b>	<b>\$ 17,699.9</b>	<b>\$ 17,153.2</b>	<b>\$ (546.7)</b>	<b>6.5 %</b>	<b>6.0 %</b>	<b>\$ 34,323.7</b>	<b>\$ 33,336.0</b>	<b>\$ (987.7)</b>
<b>TRANSFERS</b>								
A.B.C. Profits	\$ 29.1	\$ 34.5	\$ 5.4	0.0 %	(0.3) %	\$ 58.2	\$ 69.1	\$ 10.9
Lottery Proceeds Fund	405.4	450.0	44.6	0.0	0.0	810.8	900.0	89.2
Transfers Per Appropriations Act	<u>339.4</u>	<u>339.4</u>	<u>0.0</u>	<u>(0.6)</u>	<u>(0.6)</u>	<u>680.8</u>	<u>680.8</u>	<u>0.0</u>
<b>Total Transfers</b>	<b>\$ 773.9</b>	<b>\$ 823.9</b>	<b>\$ 50.0</b>	<b>(0.3) %</b>	<b>(0.3) %</b>	<b>\$ 1,549.8</b>	<b>\$ 1,649.9</b>	<b>\$ 100.1</b>
<b>TOTAL GENERAL FUND</b>	<b>\$ 18,473.8</b>	<b>\$ 17,977.1</b>	<b>\$ (496.7)</b>	<b>6.2 %</b>	<b>5.7 %</b>	<b>\$ 35,873.5</b>	<b>\$ 34,985.9</b>	<b>\$ (887.6)</b>

The Interim forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates recommendations from the GABE, housing industry experts, and the GACRE.

The November Alternative Low Growth forecast is based on the October 2007 Global Insight Alternative Low Growth outlook and the corresponding Virginia state forecast developed by the Department of Taxation.

Chapter 896 (HB 3202) requires the Comptroller to deposit one-third of insurance company premiums tax collected in the most recently ended fiscal year and the revenues collected from \$0.03 of the recordation tax to various transportation funds beginning in FY09.

## GENERAL FUND REVENUES

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### Legislative Changes Affecting the Forecast

Table 3.8 below lists the legislative and policy changes that affect the revenue forecast.

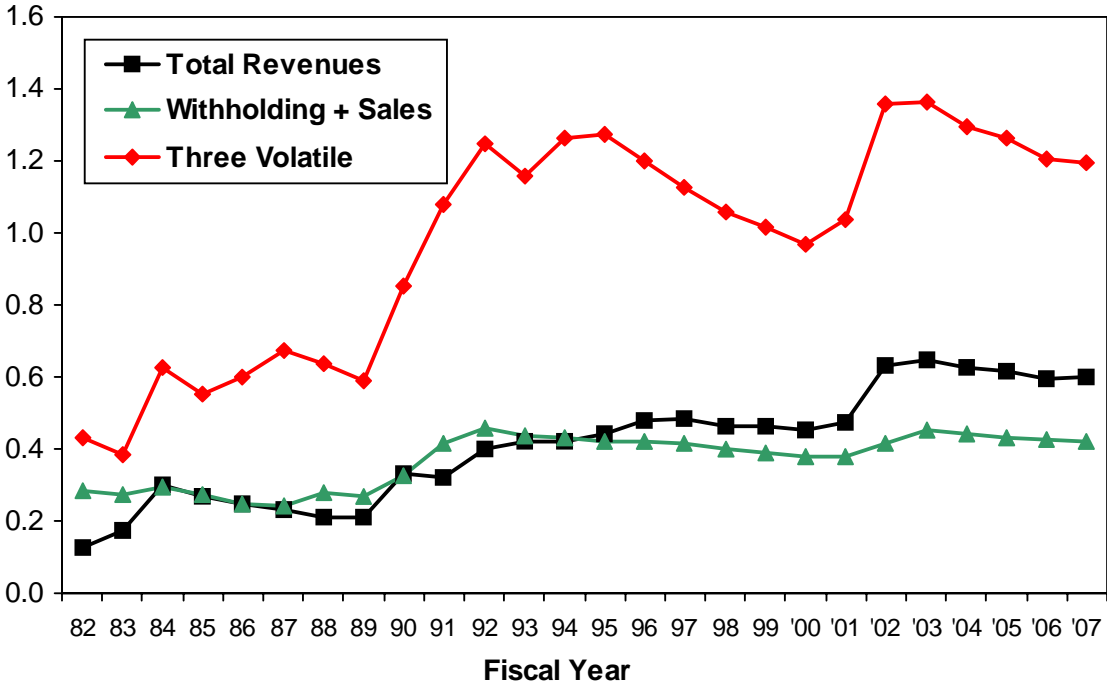
**Table 3.8**  
**Summary of Recent Legislation Affecting General Fund Revenues**  
**(Millions of Dollars)**

	FY08	FY09	FY10
<b>INDIVIDUAL INCOME TAX</b>			
C. 3, 2006 - Cap Land Preservation Tax Credit (Total Cost)	(200.0)	(225.0)	(170.0)
C. 3, 2006 - Credit for Purchase of Long-Term Care Insurance	(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)	(0.4)	(0.6)
C. 3, 2006 - Deduction for Tobacco Quota	(0.1)	(0.2)	(0.2)
C. 847, 2007 - IRS Tax Conformity	(1.2)	(0.8)	(3.3)
C.847, 2007 - Increase Filing Threshold/Personal Exemption	(13.5)	(27.1)	(26.9)
<b>STATE SALES AND USE TAX</b>			
C. 3, 2006 - Back to School Sales Tax Holiday	(2.6)	(2.8)	(2.8)
C. 3, 2006 - Exemption for Medicines Sold to Veterinarians	(0.1)	(0.1)	(0.1)
C. 847, 2007 - SOQ 1% Sales Tax	3.5		
C. 847, 2007 - Sales Tax Exemption for Hurricane Preparedness	(1.5)	(1.6)	(1.7)
C. 847, 2007 - Sales Tax Holiday for Energy Efficient Appliances	(0.1)	(0.1)	(0.1)
<b>CORPORATE INCOME TAX</b>			
C. 3, 2006 - Allow Coal Tax Credit Allocation Between Purchasers & Sellers	(14.5)		
C. 3, 2006 - Deduction for Tobacco Quota	(0.8)	(1.4)	(1.4)
C. 3, 2006 - Neighborhood Assistance to \$12 Million	(1.0)	(1.0)	(1.0)
<b>WILLS, SUITS, DEEDS, AND CONTRACTS</b>			
C. 847, 2007 - \$.03 of Recordation Tax to Transportation		(53.9)	(58.8)
<b>INSURANCE PREMIUMS TAX</b>			
C. 847, 2007 - 1/3 of Insurance Premiums Tax to Transportation		(134.5)	(139.6)
<b>ESTATE TAXES</b>			
C. 3, 2006 - Repeal Estate Tax	(42.2)	(120.2)	(120.2)
<b>INTEREST</b>			
C. 3, 2006 - Interest on Sponsored Programs Higher Education	8.8		
C. 847, 2007 - Interest on Rainy Day Fund	(4.5)		

**Volatility**

The volatility of general fund revenues has steadily increased over the past 26 years. Figure 3.8 depicts the coefficient of variation for total general fund revenues, withholding and sales tax collections, and the three most volatile revenue sources -- nonwithholding, corporate, and recordation taxes. The coefficient of variation is a conventional measure of volatility that is computed as the ratio of the standard deviation of a series to the mean of the series. In this case, the measure is constructed on a cumulative basis -- each additional year is combined with the prior years and the statistical inputs are updated.

**Figure 3.8**  
**Volatility in Total General Fund Revenues**  
**Cumulative Coefficient of Variation**



Since fiscal year 1995, the coefficient of variation for withholding and sales (76 percent of total general fund revenues in fiscal year 2007) -- the two revenue sources most closely linked to the Virginia economy -- has been below that of total general fund revenues. These two revenue sources have historically provided underlying stability to revenue collections. The increased share of nonwithholding, corporate, and recordation tax (27 percent of total revenues in fiscal year 2007) has increased the volatility of total general fund revenues. These revenue sources tend to follow more of a boom-bust cycle. Nonwithholding payments are highly correlated with growth in financial markets. Corporate income tax payments, while related to profitability, are difficult to predict due to tax provisions related to the treatment of losses. Recordation taxes are driven by activity in the housing market. As the volatility of total general fund revenues increases, so then does the difficulty in forecasting future revenue collections.

**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 2007 In Review

Table 4.1 compares actual collections in fiscal year 2007 to the official forecast for the Commonwealth Transportation Fund (CTF). Total transportation revenues amounted to approximately \$2.3 billion, an increase of only \$19.0 million over last year. Revenue collections grew by 0.8 percent. Fiscal year 2007 growth was the lowest year-over-year increase since fiscal year 1991 and was well below the 10-year average growth rate of 3.7 percent. Total collections ended \$12.6 million above the official forecast, a variance of 0.5 percent.

**Table 4.1**  
**Commonwealth Transportation Revenues**  
**Actual Collections Compared to the Official Forecast for Fiscal Year 2007**  
**(Millions of Dollars)**

Revenue Sources	FY2006 Actual	FY2007 Actual	FY2007 Forecast	Percent Change 2006-2007		Forecast Variance	
				Actual	Forecast	Amount	Percent
Motor Fuels Tax	\$ 861.5	\$ 850.3	\$ 852.2	-1.3%	-1.1%	\$ (1.9)	-0.2%
Road Use Tax	5.7	7.1	6.0	24.6%	5.3%	1.1	18.3%
Vehicle Sales Tax	598.5	597.6	587.5	-0.2%	-1.8%	10.1	1.7%
Vehicle Licenses	169.3	169.4	170.4	0.1%	0.6%	(1.0)	-0.6%
State Sales Tax	476.3	517.3	508.7	8.6%	6.8%	8.6	1.7%
Priority Transportation Fund	20.0	20.0	20.0	0.0%	0.0%	-	0.0%
Int'l Registration Plan	60.6	54.0	62.4	-10.9%	3.0%	(8.4)	-13.5%
Interest Earnings	38.6	53.9	48.2	39.6%	24.9%	5.7	11.8%
Rental Tax	30.2	30.8	30.8	2.0%	2.0%	-	0.0%
Aviation Fuels Tax	3.2	2.2	3.4	-31.3%	6.3%	(1.2)	-35.3%
Miscellaneous	32.0	12.3	12.7	-61.6%	-60.3%	(0.4)	-3.1%
<b>TOTAL</b>	<b>\$ 2,295.9</b>	<b>\$ 2,314.9</b>	<b>\$ 2,302.3</b>	<b>0.8%</b>	<b>0.3%</b>	<b>\$ 12.6</b>	<b>0.5%</b>

*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.*

The small surplus in fiscal year 2007 can be attributed to slightly stronger than expected growth in the motor vehicle sales tax, retail sales tax, and interest earnings. Most of the other major revenue sources performed close to expectations.

Revenues from motor fuels taxes (37 percent of the CTF) fell short of the forecast by \$1.9 million in fiscal year 2007. Even though the average price of gasoline increased by about 2 percent in fiscal year 2007 (on a quarter over quarter basis), this was on top of the 29 percent increase in fiscal year 2006. From July 2004 to July 2007, the average price of

a gallon of regular gasoline has increased 53 percent. The demand for motor fuels is relatively inelastic. However, as prices remain elevated, consumers do adjust their consumption patterns and the impact of high prices on demand is becoming more evident. Diesel fuel consumption reflects a different market than gasoline. Most diesel fuel is purchased and consumed by motor carriers, and reflects movement of freight through the state rather than commuter passenger travel. Motor carriers may purchase fuel in a state because fuel tax rates are lower than in other states. Motor carriers respond to the general economy more than passenger traffic. They tend to travel more miles when the economy is in expansion than when the economy is in recession. Motor carriers are also able to pass-through a portion of increases in diesel costs to their customers.

Revenues from the motor vehicle sales and use tax (26 percent of the CTF) fell by 0.2 percent in fiscal year 2007. The official forecast anticipated a decrease in the sale of new and used vehicles in fiscal year 2007 along with sluggish growth in new and used vehicle sales prices. Sales of both new and used vehicles did decline in fiscal year 2007, although at somewhat slower rates than anticipated. The price of a used car increased by 5.5 percent in fiscal year 2007 as consumers reached for better and newer used vehicles.

Revenues from the transportation share of the state retail sales tax (22 percent of the CTF) increased by 8.6 percent, exceeding the forecast by 1.7 percent. Most of the growth in fiscal year 2007 can be attributed to the elimination of accelerated sales tax (AST) collections. Prior to the termination of the AST program, a large portion of July's transportation share of the state retail sales tax was retained in the general fund and later transferred to the CTF.

Motor vehicle license fees (7 percent of the CTF) were \$1.0 million below the forecast in fiscal year 2007.

International Registration Plan fees (2 percent of the CTF), the registration fees paid by interstate motor carriers, declined by 10.9 percent in fiscal year 2007. 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 (6 percent of the CTF) were \$5.2 million above the forecast in fiscal year 2007. Close to half of the fiscal year 2007 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.

# NON-GENERAL FUND REVENUES

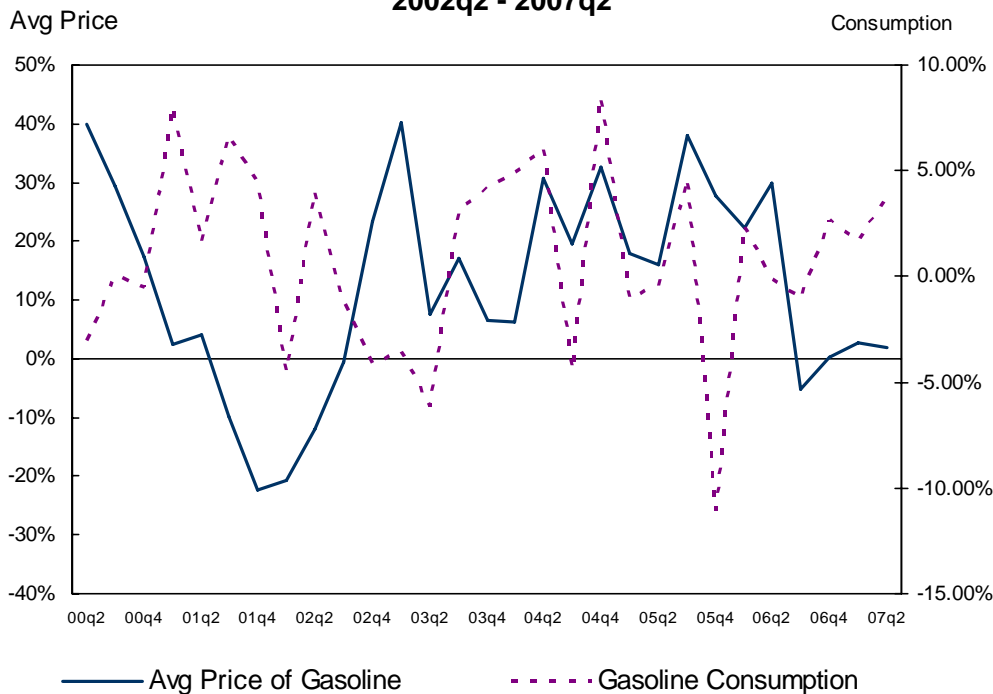
## Outlook for Key Tax Base Variables

### Motor Fuel Consumption

Gasoline consumption increased by 1.7 percent in fiscal year 2007 compared to the official forecast of a 2.3 percent increase. Diesel fuel consumption fell by 1.7 percent, considerably lagging the forecast of 4.6 percent growth.

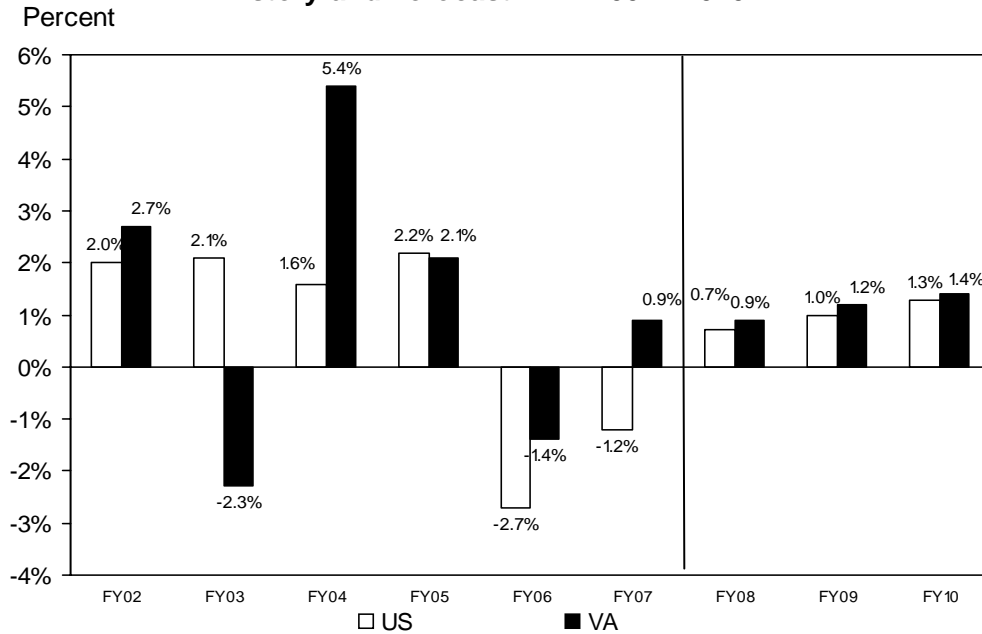
In fiscal year 2007, growth in the average price of gasoline was flat over the previous year. In economic terms, the consumer reaction to gasoline price increases can be broken down into scale and substitution effects. The demand for gasoline is relatively inelastic in the short-term and involves mainly 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 2007 -- 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 - 2007q2**



Motor fuels consumption is expected to grow at moderate rates over the near-term. In the U.S., petroleum consumption is projected to average 20.8 million bbl/d in 2007, up 0.5 percent from the 2006 average, with a further 1.0 percent increase, to an average of 21.0 million bbl/d, in 2008. As shown in Figure 4.2, the demand for taxable motor fuels is expected to slightly exceed the U.S. total highway motor fuel use over the forecast horizon.

**Figure 4.2  
U.S. and Virginia Motor Fuel Demand  
History and Forecast -- FY 2002 - 2010**



Oil prices recently exceeded \$80 a barrel due to considerable speculative activity and uncertainty about the outlook for global oil demand and supply. Oil prices are expected to remain volatile over the near term although prices are expected to trend down. The higher oil prices mean higher gasoline prices. Regular grade gasoline prices are expected to average \$2.75 a gallon in 2007 and \$2.83 a gallon in 2008. The average price during the summer driving season is expected to be close to \$3.00 a gallon.

Fuel use by heavy duty trucks has grown by an annual average of 4.3 percent over the last ten years. With the winter heating season coming into focus, retail diesel prices grew 5.5 cents last week to 309.4 cents per gallon, 57.0 cents per gallon more than last year, and the highest price since October 24, 2005. Retail diesel fuel prices in 2008 are projected to average \$2.96 per gallon, up from a projected \$2.82 per gallon in 2007.

The forecast for motor fuels consumption shown in Table 4.2 on the following page assumes that crude oil prices will average \$74 a barrel in 2008 then moderate to the low-\$70's a barrel over the remainder of the forecast horizon. However, all risks are skewed to the upside.

## NON-GENERAL FUND REVENUES

**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	(1.3)	0.2	1.1	2.1	2.7
Standard	(1.3)	1.7	0.3	0.7	0.9
Alternative	(1.3)	1.7	(3.3)	0.3	2.9
Taxable Gallons - Diesel					
Official	(1.8)	3.1	4.4	5.4	4.8
Standard	(1.8)	(1.7)	2.8	2.6	3.0
Alternative	(1.8)	(1.7)	1.2	1.1	3.1

### Vehicle Sales

The official forecast was based on a continued decline in new and used vehicles sales. Both new and used vehicle sales suffered a decline in fiscal year 2007. New car sales fell by 4.7 percent and used car sales fell by 2.5 percent.

Table 4.3 shows the official and November 2007 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	(1.3)	(5.7)	0.7	(0.6)	1.3
Standard	(1.3)	(4.7)	(6.8)	1.3	1.1
Alternative	(1.3)	(4.7)	(9.6)	1.5	6.0
Avg Price - New Vehicles					
Official	(1.0)	1.4	2.5	2.6	2.6
Standard	(1.0)	0.8	1.3	2.6	2.6
Used Taxable Titles					
Official	(2.3)	(3.2)	1.5	3.2	0.1
Standard	(2.3)	(2.5)	(2.2)	2.0	2.5
Alternative	(2.3)	(2.5)	(2.3)	3.2	4.3
Avg Price - Used Vehicles					
Official	3.1	0.8	0.6	1.6	1.6
Standard	3.1	5.5	3.7	4.4	3.7

New Taxable Titles: In fiscal year 2007, close to 424,000 new vehicles were titled in Virginia, a decline of about 20,000 from fiscal year 2006. The official forecast anticipated a decline of about 26,000 new cars.

The November 2007 forecast expects a further decline of 6.8 percent in fiscal year 2008 and only marginal growth in fiscal years 2009 and 2010. Vehicle sales are being affected by the downturn in the housing market in a number of ways. First, employment and income trends, the most important drivers of vehicle sales, have weakened. Second, credit problems in the mortgage market are spilling over to other debt, such as auto loans. This is then affecting the ability to purchase new vehicles. Third, declining house prices are affecting the ability to purchase vehicles by reducing available home equity that would be used to finance other consumer purchases and by reducing the wealth effect, which had contributed to overall spending in recent years.

New vehicle sales fell 9.1 percent in the first quarter of fiscal year 2008. Sales are expected to fall by 1.6 percent over the last three quarters of the fiscal year.

Used Taxable Titles: Over 1.2 million used cars were sold in Virginia in fiscal year 2007, a decline of 2.5 percent from fiscal year 2006. Used car sales generally follow a sales pattern similar to new car sales. Higher interest rates, the uncertainty surrounding the availability of credit, and a moderating employment trend are expected to result in a decline of 2.2 percent in fiscal year 2008.

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 1.3 percent in fiscal year 2008 and 2.6 percent in fiscal year 2009.

Used car dealers are facing a smoother transition period in the introduction of new model year vehicles as compared to the prior two years. After employee-pricing in 2005 (that quickly wiped out carryover inventory) and overproduction in 2006 (that nearly wiped out dealers with excessive stocks), the 2007 model year transition started out calm and comfortable. The average price of a used vehicle sold in Virginia is expected to increase by 3.7 percent in fiscal year 2008 and 4.4 percent in fiscal year 2009.

## **NON-GENERAL FUND REVENUES**

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### **November 2007 Commonwealth Transportation Fund Forecast**

Table 4.4 on the following pages presents a comparison of the November 2007 forecast and the current official forecast which was prepared in August 2007 incorporating actions of the 2007 General Assembly session and changes to the General Fund forecast.

During the 2007 session of the General Assembly, House Bill 3202 was passed by both houses of the General Assembly and signed into law by the Governor. House Bill 3202 provided a considerable influx of new revenues into the Commonwealth Transportation Fund. Motor vehicle license fees, motor fuels taxes, and miscellaneous revenues have been adjusted to reflect these new revenues. In addition, House Bill 3202 provided for one-third of the insurance premiums tax and 3 cents (of the 25 cent) of the recordation tax to be deposited into the Commonwealth Transportation Fund beginning in fiscal year 2009. Over the next three fiscal years, the provisions of House Bill 3202 are expected to generate an additional \$871.8 million.

As compared to the official forecast, total state taxes and fees are \$55.0 million lower in fiscal year 2008, \$71.3 million lower in fiscal year 2009, and \$71.6 million lower in fiscal year 2010. Fiscal year 2008 is estimated to increase 5.1 percent and growth for fiscal years 2009 and 2010 is expected to be 12.7 percent and 3.4 percent, respectively. Adjusting for the impact of House Bill 3202, growth is expected to be 0.1 percent, 2.4 percent, and 3.3 percent over the next three fiscal years.

Most of the downward revisions over the next two fiscal years can be attributed to a slowdown in auto and retail sales, lower demand for motor fuels, and lower interest earnings.

The motor fuels tax is the single largest revenue source in the Commonwealth Transportation Fund and is expected to increase by 2.6 percent in fiscal year 2008, 0.6 percent in fiscal year 2009, and 1.5 percent in fiscal year 2010. The November 2007 forecast decreases the motor fuels estimate by \$15.7 million in fiscal year 2008, and \$36.8 million and \$54.1 million for fiscal years 2009 and 2010, respectively.

Motor vehicle sales and use tax collections are expected to fall by 2.3 percent in fiscal year 2008 and increase by 4.9 percent in fiscal year 2009. The November 2007 forecast projects decreases of \$22.2 million and \$11.4 million for fiscal years 2008 and 2009, respectively, as compared to the official forecast.

The state retail sales and use tax revenues are expected to exhibit slower growth in fiscal year 2008 followed by a return to trend growth in fiscal years 2009 and 2010. The revised estimate for the transportation portion of the retail sales tax is close to \$40 million lower than the official forecast over the forecast horizon.

## NON-GENERAL FUND REVENUES

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

	Fiscal Year 2007		Fiscal Year 2008				
	Actual	% Growth	Official Forecast	Nov Forecast	Change	% Growth over FY 07	
						Official	Nov
<b>Highway Maintenance &amp; Operating Fund</b>							
Motor Fuels Tax	\$ 742.8	(1.6) %	\$ 779.8	\$ 763.7	\$ (16.1)	5.0 %	2.8 %
Road Tax	(1.3)	48.0	(2.4)	(0.5)	1.9	(84.6)	61.5
Motor Vehicle Sales And Use Tax	389.9	(0.1)	393.9	379.5	(14.4)	1.0	(2.7)
Motor Vehicle License Fees	148.2	0.0	241.3	247.2	5.9	62.8	66.8
International Registration Plan	54.0	(10.9)	64.5	61.5	(3.0)	19.4	13.9
Abusive Driver Fees	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Recordation Tax (1 cent)	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Miscellaneous	12.3	(61.6)	16.4	15.8	(0.6)	33.3	28.5
<b>Total State Taxes and Fees (HMOF)</b>	<b>\$ 1,345.9</b>	<b>(2.7) %</b>	<b>\$ 1,493.5</b>	<b>\$ 1,467.2</b>	<b>\$ (26.3)</b>	<b>11.0 %</b>	<b>9.0 %</b>
<b>Transportation Trust Fund</b>							
Motor Fuels Tax	\$ 107.5	0.5 %	\$ 108.1	\$ 108.5	\$ 0.4	0.6 %	0.9 %
Priority Transportation Trust Fund Base	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Road Tax	8.4	2.4	8.4	8.6	0.2	0.0	2.4
Motor Vehicle Sales And Use Tax	207.7	(0.3)	212.1	204.3	(7.8)	2.1	(1.6)
Motor Vehicle License Fees	21.2	0.5	21.6	21.7	0.1	1.9	2.4
Retail Sales and Use Tax	517.3	8.6	536.0	524.4	(11.6)	3.6	1.4
Recordation Tax (2 cents)	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Interest Earnings	53.9	39.6	52.6	43.5	(9.1)	(2.4)	(19.3)
Rental Tax	30.8	2.0	31.3	31.6	0.3	1.6	2.6
Aviation Fuels Tax	2.2	(31.3)	3.6	2.4	(1.2)	63.6	9.1
<b>Total State Taxes and Fees (TTF)</b>	<b>\$ 969.0</b>	<b>6.1 %</b>	<b>\$ 993.7</b>	<b>\$ 965.0</b>	<b>\$ (28.7)</b>	<b>2.5 %</b>	<b>(0.4) %</b>
<b>Total HMOF And TTF</b>							
Motor Fuels Tax	\$ 850.3	(1.3) %	\$ 887.9	\$ 872.2	\$ (15.7)	4.4 %	2.6 %
Priority Transportation Trust Fund Base	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Road Tax	7.1	24.6	6.0	8.1	2.1	(15.5)	14.1
Motor Vehicle Sales and Use Tax	597.6	(0.2)	606.0	583.8	(22.2)	1.4	(2.3)
Motor Vehicle License Fees	169.4	0.1	262.9	268.9	6.0	55.2	58.7
International Registration Plan	54.0	(10.9)	64.5	61.5	(3.0)	19.4	13.9
Abusive Driver Fees	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Retail Sales and Use Tax	517.3	8.6	536.0	524.4	(11.6)	3.6	1.4
Recordation Tax (3 cents)	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Interest Earnings	53.9	39.6	52.6	43.5	(9.1)	(2.4)	(19.3)
Rental Tax	30.8	2.0	31.3	31.6	0.3	1.6	2.6
Aviation Fuels Tax	2.2	(31.3)	3.6	2.4	(1.2)	63.6	9.1
Miscellaneous	12.3	(61.6)	16.4	15.8	(0.6)	33.3	28.5
<b>Total State Taxes and Fees</b>	<b>\$ 2,314.9</b>	<b>0.8 %</b>	<b>\$ 2,487.2</b>	<b>\$ 2,432.2</b>	<b>\$ (55.0)</b>	<b>7.4 %</b>	<b>5.1 %</b>
<b>Transfers per the Appropriations Act</b>							
Priority Transportation Trust Fund	37.4	0.0	\$ 0.0	\$ 0.0	\$ 0.0	(100.0) %	(100.0) %
General Fund Transfer	500.0	n/a	0.0	0.0	0.0	n/a	n/a
Retail Sales Tax - AST Retention	0.0	(100.0)	0.0	0.0	0.0	n/a	n/a
Increased Registration Fees	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Auto Insurance Premiums Tax	102.7	n/a	109.8	109.8	0.0	6.9	6.9
<b>Total Transfers</b>	<b>640.1</b>	<b>273.9</b>	<b>\$ 109.8</b>	<b>\$ 109.8</b>	<b>\$ 0.0</b>	<b>(82.8)</b>	<b>(82.8) %</b>
<b>Total Transportation Fund</b>	<b>2,955.0</b>	<b>19.8</b>	<b>\$ 2,597.0</b>	<b>\$ 2,542.0</b>	<b>\$ (55.0)</b>	<b>(12.1) %</b>	<b>(14.0) %</b>

The Official forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and adjusted for actions of the 2007 General Assembly session.

The November forecast is based on the October 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and reflects actions of the 2007 General Assembly session.



# NON-GENERAL FUND REVENUES

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

	Fiscal Year 2009				
	Official Forecast	Nov Forecast	Change	% Growth over FY 08	
				Official	Nov
<b>Highway Maintenance &amp; Operating Fund</b>					
Motor Fuels Tax	\$ 803.5	\$ 768.1	\$ (35.4)	3.0 %	0.6 %
Road Tax	(2.4)	(1.7)	0.7	0.0	240.0
Motor Vehicle Sales And Use Tax	405.6	398.2	(7.4)	3.0	4.9
Motor Vehicle License Fees	241.1	249.0	7.9	(0.1)	0.7
International Registration Plan	66.6	63.5	(3.1)	3.3	3.3
Abusive Driver Fees	61.9	61.9	0.0	n/a	n/a
Recordation Tax (1 cent)	17.7	18.0	0.3	n/a	n/a
Miscellaneous*	16.7	15.8	(0.9)	1.8	0.0
Total State Taxes and Fees (HMOF)	\$ 1,610.7	\$ 1,572.8	\$ (37.9)	7.8 %	7.2 %
<b>Transportation Trust Fund</b>					
Motor Fuels Tax	\$ 110.9	\$ 109.5	\$ (1.4)	2.6 %	0.9 %
Priority Transportation Trust Fund	152.0	154.5	2.5	660.0	672.5
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	132.0	134.5	2.5	n/a	n/a
Road Tax	8.5	8.5	0.0	1.2	(1.2)
Motor Vehicle Sales And Use Tax	218.4	214.4	(4.0)	3.0	4.9
Motor Vehicle License Fees	21.6	21.9	0.3	0.0	0.9
Retail Sales and Use Tax	566.4	552.0	(14.4)	5.7	5.3
Recordation Tax (2 cents)	35.3	35.9	0.6	n/a	n/a
Interest Earnings	53.0	37.2	(15.8)	0.7	(14.5)
Rental Tax	32.3	32.3	0.0	3.2	2.2
Aviation Fuels Tax	3.8	2.6	(1.2)	5.6	8.3
Total State Taxes and Fees (TTF)	\$ 1,202.2	\$ 1,168.8	\$ (33.4)	21.0 %	21.1 %
<b>Total HMOF And TTF</b>					
Motor Fuels Tax	\$ 914.4	\$ 877.6	\$ (36.8)	3.0 %	0.6 %
Priority Transportation Trust Fund	152.0	154.5	2.5	660.0	672.5
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	132.0	134.5	2.5	n/a	n/a
Road Tax	6.1	6.8	0.7	1.7	(16.0)
Motor Vehicle Sales and Use Tax	624.0	612.6	(11.4)	3.0	4.9
Motor Vehicle License Fees	262.7	270.9	8.2	(0.1)	0.7
International Registration Plan	66.6	63.5	(3.1)	3.3	3.3
Abusive Driver Fees	61.9	61.9	0.0	n/a	n/a
Retail Sales and Use Tax	566.4	552.0	(14.4)	5.7	5.3
Recordation Tax (3 cents)	53.0	53.9	0.9	n/a	n/a
Interest Earnings	53.0	37.2	(15.8)	0.7	(14.5)
Rental Tax	32.3	32.3	0.0	3.2	2.2
Aviation Fuels Tax	3.8	2.6	(1.2)	5.6	8.3
Miscellaneous	16.7	15.8	(0.9)	1.8	0.0
<b>Total State Taxes and Fees</b>	<b>\$ 2,812.9</b>	<b>\$ 2,741.6</b>	<b>\$ (71.3)</b>	<b>13.1 %</b>	<b>12.7 %</b>
<b>Transfers per the Appropriations Act</b>					
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	0.0	0.0	0.0	(100.0)	(100.0)
Total Transfers	\$ 0.0	\$ 0.0	\$ 0.0	(100.0) %	(100.0) %
<b>Total Transportation Fund</b>	<b>\$ 2,812.9</b>	<b>\$ 2,741.6</b>	<b>\$ (71.3)</b>	<b>8.3 %</b>	<b>7.9 %</b>

The Official forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and adjusted for actions of the 2007 General Assembly session.

The November forecast is based on the October 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and reflects actions of the 2007 General Assembly session.

## NON-GENERAL FUND REVENUES

**Table 4.4**  
**The Official and November 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
<b>Highway Maintenance &amp; Operating Fund</b>					
Motor Fuels Tax	\$ 830.3	\$ 779.6	\$ (50.7)	3.3 %	1.5 %
Road Tax	(2.5)	(2.9)	(0.4)	4.2	70.6
Motor Vehicle Sales And Use Tax	417.4	417.2	(0.2)	2.9	4.8
Motor Vehicle License Fees	243.0	252.9	9.9	0.8	1.6
International Registration Plan	68.7	65.6	(3.1)	3.2	3.2
Abusive Driver Fees	65.4	65.4	0.0	5.7	5.7
Recordation Tax (1 cent)	19.3	19.6	0.3	9.1	9.1
Miscellaneous*	17.0	15.9	(1.1)	1.8	0.6
<b>Total State Taxes and Fees (HMOF)</b>	<b>\$ 1,658.6</b>	<b>\$ 1,613.3</b>	<b>\$ (45.3)</b>	<b>3.0 %</b>	<b>2.6 %</b>
<b>Transportation Trust Fund</b>					
Motor Fuels Tax	\$ 114.2	\$ 110.8	\$ (3.4)	3.0 %	1.2 %
Priority Transportation Trust Fund	158.8	159.6	0.8	4.5	3.3
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	138.8	139.6	0.8	5.2	3.8
Road Tax	8.5	8.4	(0.1)	0.0	(1.2)
Motor Vehicle Sales And Use Tax	224.8	224.6	(0.2)	2.9	4.8
Motor Vehicle License Fees	21.8	22.3	0.5	0.9	1.8
Retail Sales and Use Tax	597.2	583.4	(13.8)	5.4	5.7
Recordation Tax (2 cents)	38.5	39.2	0.7	9.1	9.1
Interest Earnings	47.8	38.2	(9.6)	(9.8)	2.7
Rental Tax	33.1	33.3	0.2	2.5	3.1
Aviation Fuels Tax	4.0	2.6	(1.4)	5.3	0.0
<b>Total State Taxes and Fees (TTF)</b>	<b>\$ 1,248.7</b>	<b>\$ 1,222.4</b>	<b>\$ (26.3)</b>	<b>3.9 %</b>	<b>4.6 %</b>
<b>Total HMOF And TTF</b>					
Motor Fuels Tax	\$ 944.5	\$ 890.4	\$ (54.1)	3.3 %	1.5 %
Priority Transportation Trust Fund	158.8	159.6	0.8	4.5	3.3
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	138.8	139.6	0.8	5.2	3.8
Road Tax	6.0	5.5	(0.5)	(1.6)	(19.1)
Motor Vehicle Sales and Use Tax	642.2	641.8	(0.4)	2.9	4.8
Motor Vehicle License Fees	264.8	275.2	10.4	0.8	1.6
International Registration Plan	68.7	65.6	(3.1)	3.2	3.2
Abusive Driver Fees	65.4	65.4	0.0	5.7	5.7
Retail Sales and Use Tax	597.2	583.4	(13.8)	5.4	5.7
Recordation Tax (3 cents)	57.8	58.8	1.0	9.1	9.1
Interest Earnings	47.8	38.2	(9.6)	(9.8)	2.7
Rental Tax	33.1	33.3	0.2	2.5	3.1
Aviation Fuels Tax	4.0	2.6	(1.4)	5.3	0.0
Miscellaneous	17.0	15.9	(1.1)	1.8	0.6
<b>Total State Taxes and Fees</b>	<b>\$ 2,907.3</b>	<b>\$ 2,835.7</b>	<b>\$ (71.6)</b>	<b>3.4 %</b>	<b>3.4 %</b>
<b>Transfers per the Appropriations Act</b>					
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**	0.0	0.0	0.0	n/a	n/a
<b>Total Transfers</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>n/a %</b>	<b>n/a %</b>
<b>Total Transportation Fund</b>	<b>\$ 2,907.3</b>	<b>\$ 2,835.7</b>	<b>\$ (71.6)</b>	<b>3.4 %</b>	<b>3.4 %</b>

The Official forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and adjusted for actions of the 2007 General Assembly session.

The November forecast is based on the October 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and reflects actions of the 2007 General Assembly session.

## **NON-GENERAL FUND REVENUES**

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### **The Alternative Forecast**

Table 4.5 on the following pages compares the official and November alternative low growth Commonwealth Transportation Fund forecasts. Under the alternative forecast, total state taxes and fees are expected to be \$83.5 million lower in fiscal year 2008, \$98.8 million lower in fiscal year 2009, and \$81.4 million lower in fiscal year 2010 than the official forecast.

This forecast is based on an economic scenario in which the housing recession deepens even more than in the standard outlook and drags the whole economy into recession.

# NON-GENERAL FUND REVENUES

**Table 4.5**  
**The Official and November Low Growth Commonwealth Transportation Fund Forecast for FY08**  
**(Dollars in Millions)**

	Fiscal Year 2007		Fiscal Year 2008				
	Actual	% Growth	Official Forecast	Nov Forecast	Change	% Growth over FY 07	
						Official	Nov
<b>Highway Maintenance &amp; Operating Fund</b>							
Motor Fuels Tax	\$ 742.8	(1.6) %	\$ 779.8	\$ 749.9	\$ (29.9)	5.0 %	1.0 %
Road Tax	(1.3)	48.0	(2.4)	(0.5)	1.9	(84.6)	61.5
Motor Vehicle Sales And Use Tax	389.9	(0.1)	393.9	373.3	(20.6)	1.0	(4.3)
Motor Vehicle License Fees	148.2	0.0	241.3	247.2	5.9	62.8	66.8
International Registration Plan	54.0	(10.9)	64.5	61.5	(3.0)	19.4	13.9
Abusive Driver Fees	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Recordation Tax (1 cent)	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Miscellaneous	12.3	(61.6)	16.4	15.8	(0.6)	33.3	28.5
<b>Total State Taxes and Fees (HMOF)</b>	<b>\$ 1,345.9</b>	<b>(2.7) %</b>	<b>\$ 1,493.5</b>	<b>\$ 1,447.2</b>	<b>\$ (46.3)</b>	<b>11.0 %</b>	<b>7.5 %</b>
<b>Transportation Trust Fund</b>							
Motor Fuels Tax	\$ 107.5	0.5 %	\$ 108.1	\$ 105.8	\$ (2.3)	0.6 %	(1.6) %
Priority Transportation Trust Fund	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Base	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Road Tax	8.4	2.4	8.4	8.6	0.2	0.0	2.4
Motor Vehicle Sales And Use Tax	207.7	(0.3)	212.1	201.0	(11.1)	2.1	(3.2)
Motor Vehicle License Fees	21.2	0.5	21.6	21.7	0.1	1.9	2.4
Retail Sales and Use Tax	517.3	8.6	536.0	521.9	(14.1)	3.6	0.9
Recordation Tax (2 cents)	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Interest Earnings	53.9	39.6	52.6	43.5	(9.1)	(2.4)	(19.3)
Rental Tax	30.8	2.0	31.3	31.6	0.3	1.6	2.6
Aviation Fuels Tax	2.2	(31.3)	3.6	2.4	(1.2)	63.6	9.1
<b>Total State Taxes and Fees (TTF)</b>	<b>\$ 969.0</b>	<b>6.1 %</b>	<b>\$ 993.7</b>	<b>\$ 956.5</b>	<b>\$ (37.2)</b>	<b>2.5 %</b>	<b>(1.3) %</b>
<b>Total HMOF And TTF</b>							
Motor Fuels Tax	\$ 850.3	(1.3) %	\$ 887.9	\$ 855.7	\$ (32.2)	4.4 %	0.6 %
Priority Transportation Trust Fund	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Base	20.0	0.0	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Road Tax	7.1	24.6	6.0	8.1	2.1	(15.5)	14.1
Motor Vehicle Sales and Use Tax	597.6	(0.2)	606.0	574.3	(31.7)	1.4	(3.9)
Motor Vehicle License Fees	169.4	0.1	262.9	268.9	6.0	55.2	58.7
International Registration Plan	54.0	(10.9)	64.5	61.5	(3.0)	19.4	13.9
Abusive Driver Fees	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Retail Sales and Use Tax	517.3	8.6	536.0	521.9	(14.1)	3.6	0.9
Recordation Tax (3 cents)	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Interest Earnings	53.9	39.6	52.6	43.5	(9.1)	(2.4)	(19.3)
Rental Tax	30.8	2.0	31.3	31.6	0.3	1.6	2.6
Aviation Fuels Tax	2.2	(31.3)	3.6	2.4	(1.2)	63.6	9.1
Miscellaneous	12.3	(61.6)	16.4	15.8	(0.6)	33.3	28.5
<b>Total State Taxes and Fees</b>	<b>\$ 2,314.9</b>	<b>0.8 %</b>	<b>\$ 2,487.2</b>	<b>\$ 2,403.7</b>	<b>\$ (83.5)</b>	<b>7.4 %</b>	<b>3.8 %</b>
<b>Transfers per the Appropriations Act</b>							
Priority Transportation Trust Fund	37.4	0.0	\$ 0.0	\$ 0.0	\$ 0.0	(100.0) %	(100.0) %
General Fund Transfer	500.0	n/a	0.0	0.0	0.0	n/a	n/a
Retail Sales Tax - AST Retention	0.0	(100.0)	0.0	0.0	0.0	n/a	n/a
Increased Registration Fees	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Auto Insurance Premiums Tax	102.7	n/a	109.8	109.8	0.0	6.9	6.9
<b>Total Transfers</b>	<b>640.1</b>	<b>273.9</b>	<b>\$ 109.8</b>	<b>\$ 109.8</b>	<b>\$ 0.0</b>	<b>(82.8)</b>	<b>(82.8) %</b>
<b>Total Transportation Fund</b>	<b>2,955.0</b>	<b>19.8</b>	<b>\$ 2,597.0</b>	<b>\$ 2,513.5</b>	<b>\$ (83.5)</b>	<b>(12.1) %</b>	<b>(14.9) %</b>

The Official forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and adjusted for actions of the 2007 General Assembly session.

The November low growth forecast is based on the October 2007 Global Insight low growth outlook and the corresponding Virginia state forecast developed by the Department of Taxation and reflects actions of the 2007 General Assembly session.

# NON-GENERAL FUND REVENUES

**Table 4.5**  
**The Official and November Low Growth Commonwealth Transportation Fund Forecast for FY09**  
**(Dollars in Millions)**

	Fiscal Year 2009				
	Official Forecast	Nov Forecast	Change	% Growth over FY 08	
				Official	Nov
<b>Highway Maintenance &amp; Operating Fund</b>					
Motor Fuels Tax	\$ 803.5	\$ 753.7	\$ (49.8)	3.0 %	0.5 %
Road Tax	(2.4)	(1.7)	0.7	0.0	240.0
Motor Vehicle Sales And Use Tax	405.6	394.4	(11.2)	3.0	5.7
Motor Vehicle License Fees	241.1	249.0	7.9	(0.1)	0.7
International Registration Plan	66.6	63.5	(3.1)	3.3	3.3
Abusive Driver Fees	61.9	61.9	0.0	n/a	n/a
Recordation Tax (1 cent)	17.7	18.0	0.3	n/a	n/a
Miscellaneous*	16.7	15.8	(0.9)	1.8	0.0
<b>Total State Taxes and Fees (HMOF)</b>	<b>\$ 1,610.7</b>	<b>\$ 1,554.6</b>	<b>\$ (56.1)</b>	<b>7.8 %</b>	<b>7.4 %</b>
<b>Transportation Trust Fund</b>					
Motor Fuels Tax	\$ 110.9	\$ 106.3	\$ (4.6)	2.6 %	0.5 %
Priority Transportation Trust Fund	152.0	154.5	2.5	660.0	672.5
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	132.0	134.5	2.5	n/a	n/a
Road Tax	8.5	8.5	0.0	1.2	(1.2)
Motor Vehicle Sales And Use Tax	218.4	212.3	(6.1)	3.0	5.6
Motor Vehicle License Fees	21.6	21.9	0.3	0.0	0.9
Retail Sales and Use Tax	566.4	548.0	(18.4)	5.7	5.0
Recordation Tax (2 cents)	35.3	35.9	0.6	n/a	n/a
Interest Earnings	53.0	37.2	(15.8)	0.7	(14.5)
Rental Tax	32.3	32.3	0.0	3.2	2.2
Aviation Fuels Tax	3.8	2.6	(1.2)	5.6	8.3
<b>Total State Taxes and Fees (TTF)</b>	<b>\$ 1,202.2</b>	<b>\$ 1,159.5</b>	<b>\$ (42.7)</b>	<b>21.0 %</b>	<b>21.2 %</b>
<b>Total HMOF And TTF</b>					
Motor Fuels Tax	\$ 914.4	\$ 860.0	\$ (54.4)	3.0 %	0.5 %
Priority Transportation Trust Fund	152.0	154.5	2.5	660.0	672.5
Base	20.0	20.0	0.0	0.0	0.0
Insurance Premiums Tax (1/3)	132.0	134.5	2.5	n/a	n/a
Road Tax	6.1	6.8	0.7	1.7	(16.0)
Motor Vehicle Sales and Use Tax	624.0	606.7	(17.3)	3.0	5.6
Motor Vehicle License Fees	262.7	270.9	8.2	(0.1)	0.7
International Registration Plan	66.6	63.5	(3.1)	3.3	3.3
Abusive Driver Fees	61.9	61.9	0.0	n/a	n/a
Retail Sales and Use Tax	566.4	548.0	(18.4)	5.7	5.0
Recordation Tax (3 cents)	53.0	53.9	0.9	n/a	n/a
Interest Earnings	53.0	37.2	(15.8)	0.7	(14.5)
Rental Tax	32.3	32.3	0.0	3.2	2.2
Aviation Fuels Tax	3.8	2.6	(1.2)	5.6	8.3
Miscellaneous	16.7	15.8	(0.9)	1.8	0.0
<b>Total State Taxes and Fees</b>	<b>\$ 2,812.9</b>	<b>\$ 2,714.1</b>	<b>\$ (98.8)</b>	<b>13.1 %</b>	<b>12.9 %</b>
<b>Transfers per the Appropriations Act</b>					
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	0.0	0.0	0.0	(100.0)	(100.0)
<b>Total Transfers</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>(100.0) %</b>	<b>(100.0) %</b>
<b>Total Transportation Fund</b>	<b>\$ 2,812.9</b>	<b>\$ 2,714.1</b>	<b>\$ (98.8)</b>	<b>8.3 %</b>	<b>8.0 %</b>

The Official forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and adjusted for actions of the 2007 General Assembly session.

The November low growth forecast is based on the October 2007 Global Insight low growth outlook and the corresponding Virginia state forecast developed by the Department of Taxation and reflects actions of the 2007 General Assembly session.

## NON-GENERAL FUND REVENUES

**Table 4.5**  
**The Official and November Low Growth Commonwealth Transportation Fund Forecast for FY10**  
**(Dollars in Millions)**

	Fiscal Year 2010					
	Official Forecast	Nov Forecast	Change	% Growth over FY 09		
				Official	Nov	
<b>Highway Maintenance &amp; Operating Fund</b>						
Motor Fuels Tax	\$ 830.3	\$ 760.9	\$ (69.4)	3.3 %		1.0 %
Road Tax	(2.5)	(2.9)	(0.4)	4.2		70.6
Motor Vehicle Sales And Use Tax	417.4	426.9	9.5	2.9		8.2
Motor Vehicle License Fees	243.0	252.9	9.9	0.8		1.6
International Registration Plan	68.7	65.6	(3.1)	3.2		3.2
Abusive Driver Fees	65.4	65.4	0.0	5.7		5.7
Recordation Tax (1 cent)	19.3	19.6	0.3	9.1		9.1
Miscellaneous*	17.0	15.9	(1.1)	1.8		0.6
<b>Total State Taxes and Fees (HMOF)</b>	<b>\$ 1,658.6</b>	<b>\$ 1,604.3</b>	<b>\$ (54.3)</b>	<b>3.0 %</b>		<b>3.2 %</b>
<b>Transportation Trust Fund</b>						
Motor Fuels Tax	\$ 114.2	\$ 108.3	\$ (5.9)	3.0 %		1.9 %
Priority Transportation Trust Fund	158.8	159.6	0.8	4.5		3.3
Base	20.0	20.0	0.0	0.0		0.0
Insurance Premiums Tax (1/3)	138.8	139.6	0.8	5.2		3.8
Road Tax	8.5	8.4	(0.1)	0.0		(1.2)
Motor Vehicle Sales And Use Tax	224.8	229.9	5.1	2.9		8.3
Motor Vehicle License Fees	21.8	22.3	0.5	0.9		1.8
Retail Sales and Use Tax	597.2	579.8	(17.4)	5.4		5.8
Recordation Tax (2 cents)	38.5	39.2	0.7	9.1		9.1
Interest Earnings	47.8	38.2	(9.6)	(9.8)		2.7
Rental Tax	33.1	33.3	0.2	2.5		3.1
Aviation Fuels Tax	4.0	2.6	(1.4)	5.3		0.0
<b>Total State Taxes and Fees (TTF)</b>	<b>\$ 1,248.7</b>	<b>\$ 1,221.6</b>	<b>\$ (27.1)</b>	<b>3.9 %</b>		<b>5.4 %</b>
<b>Total HMOF And TTF</b>						
Motor Fuels Tax	\$ 944.5	\$ 869.2	\$ (75.3)	3.3 %		1.1 %
Priority Transportation Trust Fund	158.8	159.6	0.8	4.5		3.3
Base	20.0	20.0	0.0	0.0		0.0
Insurance Premiums Tax (1/3)	138.8	139.6	0.8	5.2		3.8
Road Tax	6.0	5.5	(0.5)	(1.6)		(19.1)
Motor Vehicle Sales and Use Tax	642.2	656.8	14.6	2.9		8.3
Motor Vehicle License Fees	264.8	275.2	10.4	0.8		1.6
International Registration Plan	68.7	65.6	(3.1)	3.2		3.2
Abusive Driver Fees	65.4	65.4	0.0	5.7		5.7
Retail Sales and Use Tax	597.2	579.8	(17.4)	5.4		5.8
Recordation Tax (3 cents)	57.8	58.8	1.0	9.1		9.1
Interest Earnings	47.8	38.2	(9.6)	(9.8)		2.7
Rental Tax	33.1	33.3	0.2	2.5		3.1
Aviation Fuels Tax	4.0	2.6	(1.4)	5.3		0.0
Miscellaneous	17.0	15.9	(1.1)	1.8		0.6
<b>Total State Taxes and Fees</b>	<b>\$ 2,907.3</b>	<b>\$ 2,825.9</b>	<b>\$ (81.4)</b>	<b>3.4 %</b>		<b>4.1 %</b>
<b>Transfers per the Appropriations Act</b>						
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	0.0	0.0	0.0	n/a		n/a
<b>Total Transfers</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>n/a %</b>		<b>n/a %</b>
<b>Total Transportation Fund</b>	<b>\$ 2,907.3</b>	<b>\$ 2,825.9</b>	<b>\$ (81.4)</b>	<b>3.4 %</b>		<b>4.1 %</b>

The Official forecast is based on the May 2007 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and adjusted for actions of the 2007 General Assembly session.

The November low growth forecast is based on the October 2007 Global Insight low growth outlook and the corresponding Virginia state forecast developed by the Department of Taxation and reflects actions of the 2007 General Assembly session.

## **NON-GENERAL FUND REVENUES**

### **ABC Revenues and Profits -- Fiscal Year 2007**

In fiscal year 2007, ABC's total income, excluding state tax receipts, was \$527.1 million. Gross sales of alcoholic beverages in the retail stores accounted for 96.2 percent of this income. The remaining 3.8 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 2004 through 2007. Along with the net ABC profits, Table 4.6 also shows transfers required by the Acts of the Assembly and net profits for distribution transferred to the General Fund.

**Table 4.6**  
**Department of Alcoholic Beverage Control Components of the**  
**Enterprise Fund - Revenues, Expenses, and Disbursements, Fiscal Years 2004-2007**  
**(Millions of Dollars)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Total Revenue*	\$ 424.0	\$ 465.1	\$ 497.9	\$ 527.1
Cost of Goods & Total Operating Expenses	349.2	373.1	404.6	432.7
Net ABC Profit	74.8	92.0	93.3	94.4
Transfer to the General Fund:				
Reimbursement for Appropriations as provided by the Acts of the Assembly	54.9	66.5	66.5	66.2
Net Profits for Distribution	\$ 19.9	\$ 25.5	\$ 26.8	\$ 28.2

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

### **ABC Revenues and Profit Forecast for 2008-2010**

Comparisons of ABC's performance in fiscal year 2006, estimated performance for fiscal year 2007, and actual performance in fiscal year 2007, are included in Table 4.7.

**Table 4.7**  
**A Comparison of Fiscal Year 2006 Results to Fiscal Year**  
**2007 Estimated and Actual Results, (Millions of Dollars)**

	<u>FY06 Actual</u>	<u>FY07 Estimate</u>	<u>FY07 Actual</u>	<u>\$ Variance</u>	<u>% Variance</u>	<u>FY06 vs FY07</u>	
						<u>Estimate</u>	<u>Actual</u>
Total Store Sales*	572.0	613.4	607.3	(6.1)	-1.0%	41.4	35.3
Net ABC Profit for Distribution	26.8	26.1	28.2	2.1	8.0%	(0.7)	1.4
State Tax Revenue**	111.6	118.4	118.7	0.3	0.3%	6.8	7.1

\*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

Fiscal year 2007 compared to 2006 shows an increase in sales, an increase in net ABC profits for distribution, and an increase in state tax revenue. A soft holiday season contributed to a shortfall in sales that was offset by expense reductions to ensure the profit forecast was met in fiscal year 2007. Table 4.8 contains fiscal year 2007 results for store sales, profits for distribution, and state tax revenues, along with the 2008 through 2010 forecasts.

**Table 4.8**  
**Forecast of ABC Store Sales, ABC State Tax on Alcohol,**  
**and Net Profit for Distribution**  
**(Millions of Dollars)**

	<u>Actual</u>	<u>Forecast</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total ABC Store Sales: (1)	607.3	648.0	678.8	705.2
Adjusted Net Profits for Distribution: (2) (3) (5)	28.2	34.3	34.6	34.5
ABC State Tax Revenues:(1)				
Spirits	100.2	106.9	112.0	116.4
Wine (4)	18.5	19.4	20.4	21.2
Total Tax Revenue:	118.7	126.3	132.4	137.6

- (1) Excludes the 5 percent general sales tax and lottery sales
- (2) Does not include appropriation transfers mandated by Virginia Acts of Assembly
- (3) ABC reports accrual basis profits while DOA reports cash basis profit transfers
- (4) Wine figure includes state as well as local transfer (includes localities share) but excludes statutory transfers to DMHMRSAS (\$9.8M)
- (5) Assumes appropriation transfers continue each year

### **Distribution of ABC Profits and ABC State Tax Revenues**

During fiscal year 2007, ABC contributed \$94.4 million of net profits to the Commonwealth, and collected \$172.4 million of taxes on store sales, wine, and beer and an additional \$23.5 million of general sales tax totaling \$290.3 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 combination of all statutory transfers contained in Chapter 951, 2005 Virginia Acts of Assembly is \$66.2 million for fiscal year 2007. 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**

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### **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 2007**

The Virginia Lottery transferred net proceeds of \$437.2 million to the Lottery Proceeds Fund for fiscal year 2007. The Lottery also transferred \$1.2 million for debt set-off to the Department of Taxation and \$10.7 million from unclaimed prizes to the Literary Fund.

Sales for fiscal year 2007 were \$1.4 billion, a decline of \$3.0 million (0.2 percent) from fiscal year 2006, but \$31.8 million (4.0 percent) more than the fiscal year 2007 forecast. Net income exceeded the forecast because of higher sales from new product offerings not included in the official forecast.

### **Forecast Overview - Fiscal Years 2008 to 2010**

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;
- continued lottery gaming competition from North Carolina, which began in the fourth quarter of fiscal year 2006 and expected to continue with new and enhanced 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 2008, the Lottery is projecting sales of \$1.4 billion and net income (turnover to the Lottery Proceeds Fund) of \$450.0 million. Prize expense is estimated to be \$802.6 million, or 57.4 percent of sales; retailer compensation is forecast to be \$79.3 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 \$450.0 million net income is the total expected transfer to the Lottery Proceeds Fund for fiscal year 2008.

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## NON-GENERAL FUND REVENUES

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For fiscal years 2009 and 2010, the Lottery is projecting sales of \$1.4 billion, creating revenue for the Lottery Proceeds Fund of \$450.0 million.

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

	FY2008	FY2009	FY2010
Sales	\$1,399.0	\$1,399.0	\$1,399.0
- Prize Expense	802.6	802.6	\$802.6
- Retailer Compensation	79.3	79.3	\$79.3
- Operating Expenses	78.7	78.7	\$78.7
+ Other Income	11.6	11.6	11.6
Net Income	\$450.0	\$450.0	\$450.0
Transfer	\$450.0	\$450.0	\$450.0

### **Sales Projections for Fiscal Years 2008 through 2010**

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 half of total lottery sales. Sales of scratch games are expected to continue to experience slight overall growth for the current year and subsequent 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 13 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 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.

## **NON-GENERAL FUND REVENUES**

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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 2008-10 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.

### ***Other Products***

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

### **Net Income for Fiscal Years 2008 through 2010**

The Lottery is forecasting net income of \$450.0 million for fiscal year 2008 to 2010. 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 5.6 percent of total sales.

The Virginia Lottery, now approaching its 20th 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.

### **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 further develops its lottery operation, will launch product offerings not available in Virginia. The Virginia Lottery estimates that approximately 8-10 percent of its sales have historically 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. Discussion continues in North Carolina about the North Carolina Education Lottery needing to increase their prize payout percentage in order to better compete against adjoining state lotteries. If the North Carolina Education Lottery does increase prize payout, the Virginia Lottery would expect to lose some of the sales to North Carolinians which it initially retained when the North Carolina Education Lottery started.

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**

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### **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. UI tax collections were below the projection by \$3.2 million, or 0.7 percent, in fiscal year 2007. Despite lower tax revenues, interest revenues were above the projection by \$3.1 million, or 9.7 percent, because benefits were lower than expected and, hence, Trust Fund balances were higher.

### **Discussion of Forecasts**

The estimates in Tables 4.10 and 4.11 on the following page represent projections from the Unemployment Insurance Benefit Financing Model. The current estimates' decrease in tax revenue in fiscal years 2008 and 2009 reflects declines in the four-year moving average of benefit charges and in the pool tax rate. The increase in fiscal year 2010 is the result of an increase in benefit charges and a decrease in the Fund Balance Factor. In the Baseline Scenario, pool taxes of 0.06 percent, 0.04 percent, and 0.03 percent are projected for Calendar Years 2008-2010 respectively. The changes in interest revenues are the result of a slight decline followed by a leveling off of trust fund balances. In the Hard Landing Alternate Scenario, pool taxes of 0.06 percent, 0.06 percent, and 0.14 percent are projected for Calendar Years 2008-2010 respectively. A fund-building tax is imposed in Calendar Year 2010. Due to higher benefit payments in the Alternate Scenario, average benefit ratios are higher. This, combined with the fund-building tax and higher pool tax rates, produces higher tax revenue than the Baseline Scenario for fiscal years 2009 and 2010. With the four-year averaging of employer benefit ratios, tax revenues continue increasing past the forecast period, rising in fiscal year 2013 to \$690 million versus \$394 million in the Standard. 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 2008, 2009, and 2010**  
**Baseline Scenario (Global Insight STANDARD)**  
**(Millions of Dollars)**

Revenue Source	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010	
	Standard Estimate	% Change From Actual Fiscal Year 2007	Standard Estimate	% Change From Estimated Fiscal Year 2008	Standard Estimate	% Change From Estimated Fiscal Year 2009
Unemployment Insurance Tax	363.9	-19.0%	353.0	-3.0%	363.1	2.9%
Interest on Trust Fund	34.3	-2.6%	32.9	-4.1%	32.7	-0.6%
Total Revenue	398.2	-17.8%	385.9	-3.1%	395.8	2.6%

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

Revenue Source	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010	
	Standard Estimate	% Change From Actual Fiscal Year 2007	Standard Estimate	% Change From Estimated Fiscal Year 2008	Standard Estimate	% Change From Estimated Fiscal Year 2009
Unemployment Insurance Tax	362.5	-19.3%	356.3	-1.7%	462.3	29.8%
Interest on Trust Fund	34.0	-3.4%	28.8	-15.3%	14.8	-48.6%
Total Revenue	396.5	-18.2%	385.1	-2.9%	477.1	23.9%