Governor Kaine's Proposed 2010-2012 Budget

Economic Outlook & Revenue Forecast

A Briefing for the Senate Finance, House Finance, and House Appropriations Committees

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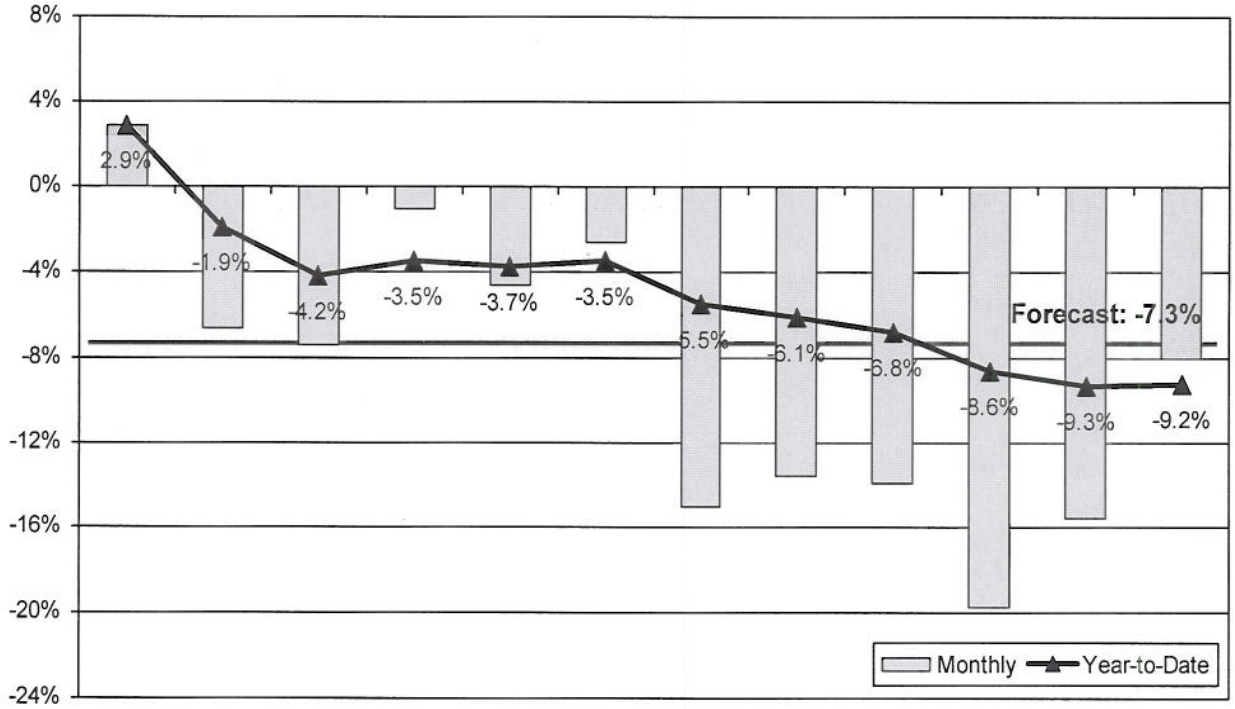
Outline…

- Fiscal Year 2009 Year-in-Review
- August Interim Revenue Forecast
- U.S. and Virginia Economic Outlook
- December Revenue Forecast
- November Revenue Collections
- Other Revenue Legislation

Total General Fund Revenue Collections Collapsed In The Second Half Of Fiscal Year 2009…

Growth in Total General Fund Revenue Collections
FY09 Monthly and Year-to-Date



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Monthly Growth:	2.9%	-6.6%	-7.4%	-1.0%	-4.6%	-2.6%	-15.0%	-13.6%	-13.9%	-19.7%	-15.6%	-8.0%

- Collections declined an unprecedented eleven consecutive months in fiscal year 2009.

- For the second half of fiscal year 2009:
  - Payroll withholding tax collections fell 1.0 percent;
  - Individual nonwithholding declined 24.8 percent;
  - Individual refunds increased 17.0 percent;
  - Sales tax collections declined 5.9 percent;
  - Corporate income tax receipts fell 19.0 percent, and;
  - Recordation taxes declined 16.8 percent.

Fiscal Year 2009 Revenue and Transfer Collections Finished $299.2 Million (2.0 Percent) Below Forecast…

Summary of Fiscal Year 2009 Revenue Collections
(millions of dollars)

Major Source	Forecast	Actual	Variance Dollars	Variance Percent	Annual Growth
Withholding	$ 9,154.0	$ 9,138.1	$ (15.9)	(0.2) %	2.3 %
Nonwithholding	2,348.3	2,310.4	(37.9)	(1.6)	(19.2)
Refunds	(1,805.0)	(1,967.4)	(162.4)	9.0	17.1
Net Individual	9,697.3	9,481.1	(216.2)	(2.2)	(6.3)
Sales	2,960.9	2,903.4	(57.5)	(1.9)	(5.6)
Corporate	685.0	648.0	(37.0)	(5.4)	(19.8)
Wills (Recordation)	298.1	314.3	16.2	5.4	(31.1)
Insurance	257.5	255.0	(2.5)	(1.0)	(35.7)
All Other Revenue	715.1	713.2	(1.9)	(0.3)	(22.1)
Total Revenues	**$ 14,613.9**	**$ 14,315.1**	**$ (298.8)**	**(2.0) %**	**(9.2) %**
ABC Profits	36.6	44.1	7.5	20.5	22.2
Sales Tax (0.25%)	222.1	213.4	(8.7)	(3.9)	(5.8)
Transfers	148.2	149.0	0.8	0.5	62.7
Total Transfers	**$ 406.9**	**$ 406.5**	**$ (0.4)**	**(0.1) %**	**(50.0) %**
Total General Fund	**$ 15,020.8**	**$ 14,721.6**	**$ (299.2)**	**(2.0) %**	**(11.2) %**

- The major driver of the fiscal year 2009 revenue shortfall was unexpected growth in individual refunds.
  - Compared to fiscal year 2008, TAX issued 28.8 percent more refunds between April and June, with June's total 110.2 percent above the prior year.

- Withholding and sales tax collections (83 percent of total revenues) finished a combined 0.6 percent below forecast.

- The three most volatile sources – individual nonwithholding, corporate income tax, and wills – finished 1.8 percent below the official forecast for the three sources.

The Governor Ordered The Secretary Of Finance In Mid-June To Conduct A Reforecast Of Revenues…

- As part of the reestimation process, the Governor's Advisory Board of Economists (GABE) met July 14th to discuss the economic outlook for fiscal year 2010 and the next biennium.
  - Recommendations from the Board, primarily downward adjustments to employment and income growth over the next three fiscal years, were incorporated into the Global Insight June 2009 standard economic outlook.
- The June 2009 GABE economic forecast and associated revenue forecast were presented to the Governor's Advisory Council on Revenue Estimates (GACRE) on August 5th.
  - The GACRE was more pessimistic than the baseline scenario. As a result, the interim revenue forecast relied on a blend of the standard and pessimistic outlooks.
    - However, over 80% of general fund revenues (withholding, sales, and corporate income tax) were based on the pessimistic alternative scenario.
- Governor Kaine released the interim revenue forecast on August 19, 2009, reducing revenues by $1.2 billion for fiscal year 2010.

More Recent Data Indicate the National Economy Is Recovering, Having Probably Hit Bottom In June....

- Real GDP rose at an annualized rate of 2.8 percent in the third quarter, with real personal consumption expenditures rising 3.0 percent, the largest increase since the third quarter of 2007;

- Payroll employment declined by only 11,000 jobs in November, significantly better than expectations;

- The national unemployment rate fell from 10.2 percent to 10.0 percent in November;

- Initial claims for unemployment insurance suggest that the labor market is slowly moving in the right direction, primarily because of fewer layoffs;

- Although the ISM manufacturing index fell in November, it stood at 53.6, the fourth consecutive month above the expansionary territory of 50.0;

- November retail sales jumped 1.2 percent excluding autos;

- Both new and existing home sales have steadily improved from spring lows, with prices stabilizing;

- U.S. auto sales increased to 10.9 million units at a seasonally adjusted annual rate in November, the best performance of the year excluding the two months during which cash for clunkers was in effect; and

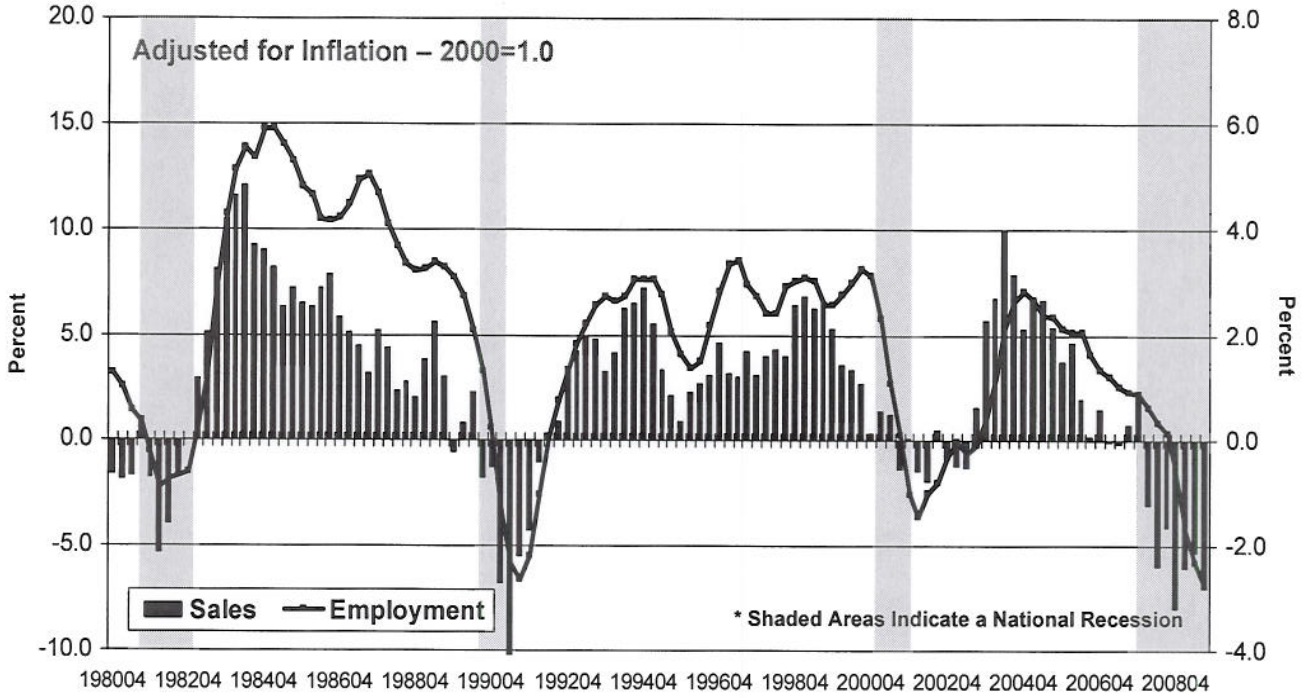
- According to the Conference Board, consumer confidence inched up in November, but remains mired at a very low level.

In Virginia, The Contraction In Payroll Employment Exceeded That of Previous Recessions…

- In October 2009, year-over-year job losses were 89,400 jobs, a decline of 2.4 percent.

- Declines in housing-related employment – construction and financial activities – account for a majority of the losses.

Sales Tax and Employment
Year-over-Year Percent Change
Seasonally-adjusted 2-quarter moving average



- Sales tax collections have been declining since the first quarter of 2008, reflecting the collapse in the housing market and subsequent squeeze on disposable income.

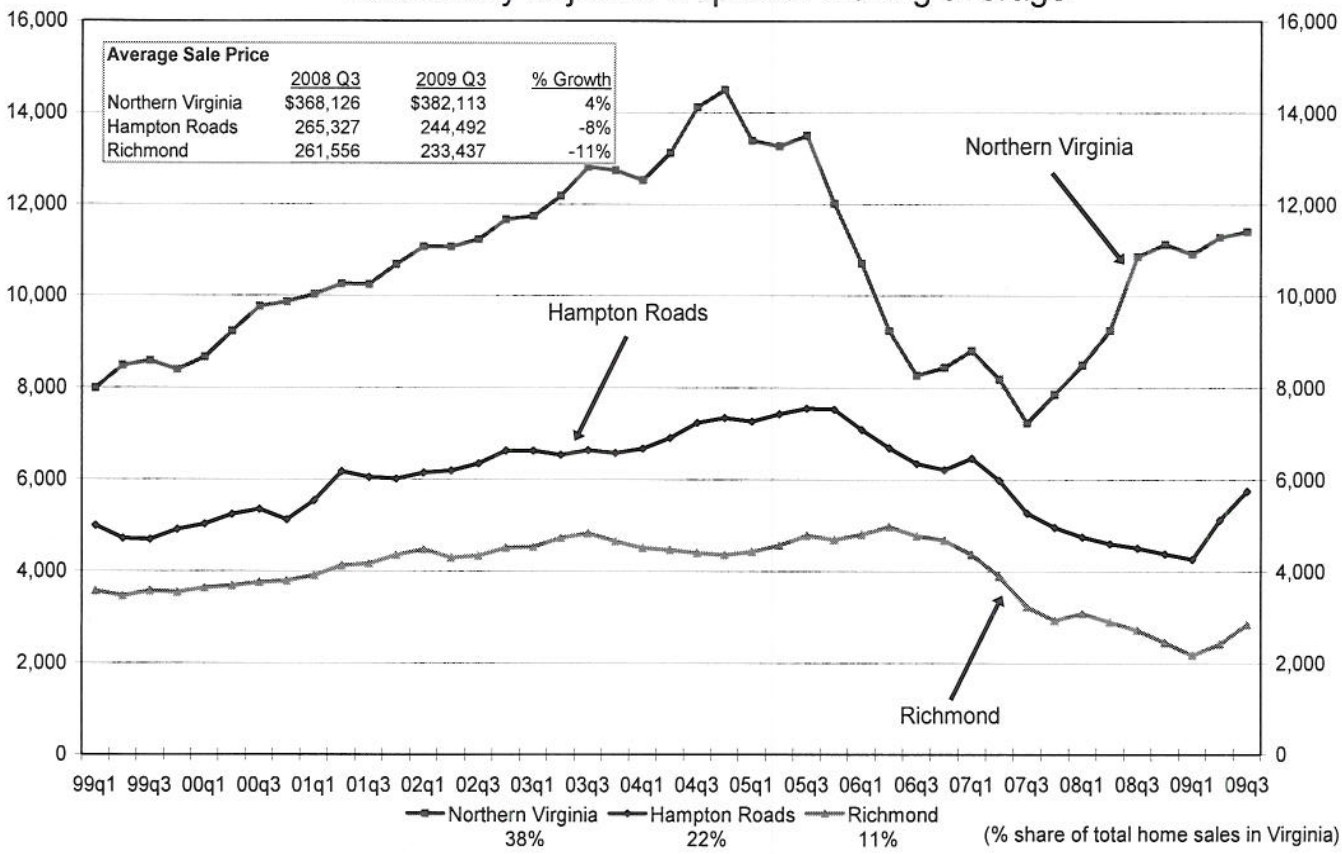
Based On Data From The Virginia Association Of Realtors, The Housing Market In Virginia Is Showing Signs Of Improvement…

- Taken together, home sales and average sale price appear to have bottomed in the spring.
  - Pending home sales are increasing in the three big regional markets
  - Statewide, the average sale price is over $50,000 below boom levels of $340,000
  - Prices in Northern Virginia have begun to rise.

Pending Home Sales in Northern Virginia, Hampton Roads, and Richmond

Levels

Seasonally-adjusted 2-quarter moving average



Global Insight's October Forecast For The National Economy Says – "Growth Is Back – Jobs Are Not"...

- Global Insight expects a prolonged U-shaped recovery.
- Lackluster consumer demand prevents a V-shaped recovery.
- Employment is expected to bottom out in the first half of calendar year 2010.

Key U.S. Economic Indicators
Interim and October Forecasts
Annual Percent Change

	Fiscal Year				
	08	09	10	11	12
Real GDP					
Interim (Jun '09)	2.4	(1.7)	(3.0)	1.0	2.9
Oct Standard	2.2	(2.2)	0.4	2.3	3.5
Oct Pessimistic			(0.7)	0.3	2.6
Consumer Spending					
Interim (Jun '09)	1.9	(1.3)	(0.7)	0.8	0.5
Oct Standard	1.5	(1.4)	0.7	2.2	2.4
Oct Pessimistic			0.2	0.5	0.7
Employment					
Interim (Jun '09)	0.6	(2.3)	(3.5)	(0.6)	1.6
Oct Standard		(2.3)	(2.9)	1.0	2.3
Oct Pessimistic			(3.3)	(0.3)	1.5
Personal Income					
Interim (Jun '09)	5.3	1.6	(0.9)	1.3	4.4
Oct Standard	4.5	(0.1)	(0.2)	3.8	4.6
Oct Pessimistic			(0.8)	2.0	4.0

In The October Standard Economic Outlook For Virginia, The Economy Begins Recovery Earlier And Grows A Bit Faster Than In The Interim Forecast…

- The U-shaped growth path for Virginia is slightly deeper with a mildly stronger recovery.
- Revenue model drivers – employment and income – are similar to interim estimates for FY 2010.

Key Virginia Economic Indicators
Interim and October Forecasts
Annual Percent Change

	Fiscal Year				
	08	09	10	11	12
Employment					
Interim (Jun '09)	0.6	(1.4)	(2.1)	(0.4)	0.9
Oct Standard	0.5	(1.3)	(2.3)	1.1	2.1
Oct Pessimistic			(2.6)	(0.0)	1.2
Personal Income					
Interim (Jun '09)	4.5	2.6	0.5	1.4	4.0
Oct Standard	4.5	1.1	1.6	3.0	3.7
Oct Pessimistic			1.3	2.0	3.4
Wages & Salaries					
Interim (Jun '09)	4.4	2.8	1.0	1.5	3.4
Oct Standard	3.9	0.7	0.4	3.0	3.7
Oct Pessimistic			0.1	2.0	2.9
Average Wage					
Interim (Jun '09)	3.8	4.3	3.2	1.9	2.5
Oct Standard	3.4	2.0	2.7	1.9	1.6
Oct Pessimistic			2.8	2.0	1.6

Economists And Business Leaders Were Mixed On The Most Probable Path For The Economy And General Fund Revenues…

- The Governor's Advisory Board of Economists (GABE) met October 14th to review Global Insight's standard and pessimistic alternative forecasts.
  - The members were about evenly split, with five choosing the Global Insight standard, five choosing the pessimistic alternative scenario, and one choosing an economic path somewhere in between the two.
- The Governor's Advisory Council on Revenue Estimates (GACRE) met November 23rd to review revenue projections based on the standard and pessimistic alternative forecasts.
  - The business leaders were split on the forecasts, with six supporting the October standard forecast, three supporting the pessimistic alternative scenario, and four choosing "standard minus."
  - Members of the General Assembly who attended the meeting expressed pessimism; however, most supported projections from their respective staffs which were consistent with the standard forecast presented to the GACRE.

The December General Fund Revenue Forecast Reflects The Sentiment Of The Advisory Boards…

- The standard forecast presented to the GACRE included downward adjustments from the August interim forecast totaling $229.8 million for fiscal year 2010.
  - The reduction included downward revision to withholding and increased projections for individual refunds, consistent with the revised economic forecast and year-to-date collections.
- Based on members' comments and near-term pessimism, the outlook for fiscal year 2010 was reduced further to a level consistent with the pessimistic alternative forecast.
  - In addition to reductions to withholding and increased projections for individual refunds, the December forecast includes a reduction in nonwithholding.
- The total general fund revenue reduction for fiscal year 2010 is $340.0 million.
- The outlook for the 2010-12 biennium is based on the standard economic outlook.

The Base December General Fund Revenue Forecast For Fiscal Year 2010...

Summary of the December General Fund Revenue Forecast

Fiscal Year 2010
(millions of dollars)

Major Source	As a % of Total Revenues	Fiscal Year 2010 Interim	% Growth	December	% Growth	$ Change
Withholding	64.4 %	$ 9,331.8	2.1 %	$ 9,153.4	0.2 %	$ (178.4)
Nonwithholding *	13.1	1,904.4	(17.6)	1,794.2	(22.3)	(110.2)
Refunds	(13.4)	(1,944.4)	(1.2)	(1,989.7)	1.1	(45.3)
Net Individual	64.1 %	$ 9,291.8	(2.0) %	$ 8,957.9	(5.5) %	$ (333.9)
Sales *	19.2 %	$ 2,784.7	(4.1) %	$ 2,784.7	(4.1) %	$ 0.0
Corporate *	4.6	662.2	2.2	662.2	2.2	0.0
Wills (Recordation)	2.0	284.0	(9.6)	284.0	(9.6)	0.0
Insurance	1.8	255.5	0.2	255.5	0.2	0.0
All Other Revenue *	4.6	665.4	(6.7)	673.4	(5.6)	8.0
Total (Base)	**96.2 %**	**$ 13,943.6**	**(2.6) %**	**$ 13,617.7**	**(4.9) %**	**$ (325.9)**
Tax Policy Actions						
Tax Amnesty		38.0		38.0		0.0
Sales Tax Remittance to AST		97.8		83.7		(14.1)
Total Revenues	**97.1 %**	**$ 14,079.4**	**(1.6) %**	**$ 13,739.4**	**(4.0) %**	**$ (340.0)**
ABC Profits	0.3	$ 37.0	(16.1) %	$ 40.5	(8.2) %	$ 3.5
Sales Tax (0.25%)	1.4	203.1	(4.8)	204.5	(4.2)	1.4
Transfers	1.2	175.2	17.6	175.2	17.6	0.0
Total Transfers	**2.9 %**	**$ 415.3**	**2.2 %**	**$ 420.2**	**3.4 %**	**$ 4.9**
Total General Fund	**100.0 %**	**$ 14,494.7**	**(1.5) %**	**$ 14,159.6**	**(3.8) %**	**$ (335.1)**

* Projected revenue gains from tax amnesty and the accelerated sales tax program have been removed from forecast amounts.

- Total general fund resources, including revenues and transfers, were $335.1 million below interim projections for fiscal year 2010.

The Total Percentage Loss In General Fund Revenue For The 2008-10 Biennium Is Over 20 Percent…

- Including the December reforecast, there now have been a series of revenue reductions for the 2008-2010 biennium totaling over $7.5 billion.

Date	Reductions in Millions
August 2007	-$ 934.4
February 2008	- 1,064.5
October 2008	- 2,513.7
December 2008	- 373.6
February 2009	- 821.5
August 2009	- 1,508.3
December 2009	- 335.1
Total	**-$7,551.1**

The Official December General Fund Revenue Forecast For Fiscal Year 2010 Is Also Affected by Budget Reductions and Proposed Tax Policy Changes…

General Fund
Revenue and Transfers
($ in Millions)

		FY2010
Current Appropriation Act (Chapter 781)		
Revenue		$ 15,262.0
Transfers		441.8
Total Appropriation Act		$ 15,703.8
Adjustments		
August Revenue Reforecast (GACRE)		(1,209.1)
December Revenue Reforecast (GACRE)		(335.1)
Miscellaneous Adjustments:		
Reduce GF Transfer to Game Department	2.0	
Revised Estimate of Excess Fees	1.6	
Recovery of Costs for Sales Tax Compliance	(0.9)	
Eliminate Transfer from Tobacco Settlement Foundation	(7.3)	
Other Adjustments	(1.0)	
Total Miscellaneous Adjustments		(5.6)
September-December Budget Reductions:		
Adjust VRS Payments:		
Suspend 4th Quarter Employee Contribution	18.1	
Delay Payment of Remaining Contributions to July	12.8	
Cash Flow Various Other Benefits	10.5	
Suspend Deferred Compensation Match	1.4	
Subtotal	42.8	
Line of Credit for Fire Programs Fund	26.0	
Courts Technology Fund (Line of Credit/Reduction)	9.0	
1 Day Furlough (NGF Share)	7.6	
Sale of Land/Aircraft	6.6	
Other NGF Cash Balances	47.0	
Total September-December Budget Reductions		139.0
Policy Adjustments		
Accelerated Sales Tax Collection	144.0	
Tax Amnesty (Additional Revenue)	43.0	
Interest on NGF Accounts	17.7	
ABC Markup (+2.0%)	1.7	
Federal Tax Conformity	(14.7)	
Taxation of Military Spouses (Federal Legislation)	(14.9)	
Total Policy Adjustments		176.8
Total Revised GF Revenue and Transfers - Introduced Budget (HB/SB29)		**$ 14,469.8**
Percent Change From Current Appropriation Act (Chapter 781)		-7.9%

Fiscal Year 2010 Year-to-Date Revenue Collections Are Running Behind Forecast Consistent With the Decision to Bring the Forecast Down in December…

November Year-to-Date Collections and FY 2010 Forecasts

(annual percent change)

Major Source	As a % of Total Revenues	Percent Growth over Prior Year: Nov YTD Actual	Interim Estimate	December Estimate	Dec-Jun Req'd Meet Nov Est.	Dec-Jun Last Year
Withholding	66.3 %	(3.1) %	2.1 %	0.2 %	2.3 %	1.0 %
Nonwithholding *	13.7	(22.5)	(17.6)	(22.3)	(22.3)	(23.4)
Refunds	(13.8)	31.1	(1.2)	2.6	(0.8)	(5.7)
Net Individual	66.1	(7.4)	(2.0)	(5.8)	(4.7)	(6.6)
Sales *	20.5	(5.8)	(4.1)	(4.1)	(2.8)	(7.6)
Corporate *	4.7	18.2	2.2	2.2	(4.0)	(20.7)
Wills (Recordation)	2.0	(2.9)	(9.6)	(9.6)	(14.7)	(28.1)
Insurance	1.8	0.0	0.2	0.2	0.2	(21.5)
All Other Revenue *	4.8	(19.1)	(6.7)	(2.1)	9.1	(15.4)
Total (Base)	**100.0 %**	**(6.8) %**	**(2.6) %**	**(4.9) %**	**(3.6) %**	**(9.2) %**
Total Revenues (including tax policy actions)		**(6.8) %**	**(1.6) %**	**(2.7) %**	**0.0 %**	**(12.7) %**

* Projected revenue gains from tax amnesty and the accelerated sales tax program have been removed from forecast amounts.

- Collections of withholding tax declined 3.1 percent through November, reflecting the acceleration in layoff activity and stagnant wage conditions in the Commonwealth.
- Individual refunds, another component of net individual income tax, have continued to outpace expectations.
  - Activity through November, reflecting primarily high-income extension returns, illustrates the magnitude of the financial crisis last October.

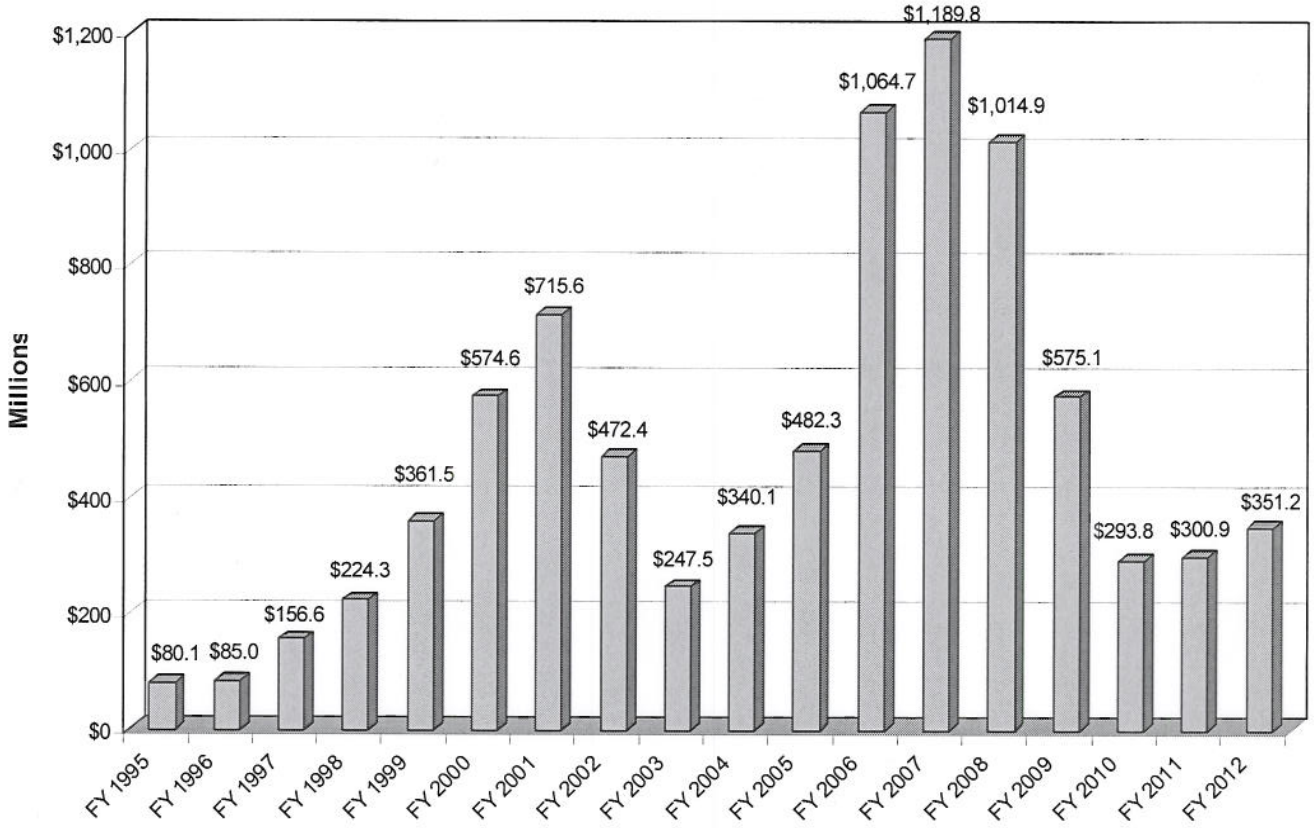
The Official December General Fund Revenue Forecast for the Next Biennium Is Lower Than Past Estimates

General Fund
Revenue and Transfers
($ in Millions)

	FY2011	FY2012	Biennium Total
Official Forecast December 2008			
Revenue	$ 16,352.2	$ 17,118.3	$ 33,470.5
Transfers	352.7	361.5	714.2
Total December 2008 Forecast	$ 16,704.9	$ 17,479.8	$ 34,184.7
Adjustments			
August 2009 Revenue Reforecast	(1,758.4)	(1,754.7)	(3,513.1)
December 2009 Revenue Reforecast	(278.6)	(308.1)	(586.7)
Miscellaneous Adjustments:			
Revise Estimate of Excess Fees	3.0	3.0	6.0
Reduce GF Transfer to Game Department	2.0	2.0	4.0
Recovery of Costs for Sales Tax Compliance	(0.8)	(0.8)	(1.6)
Recovery of Individual Costs From NGF	(2.6)	(2.6)	(5.2)
Other	0.1	0.3	0.4
Total Miscellaneous Adjustments	1.7	1.9	3.6
September-December Budget Reduction:			
Adjust VRS Payments:			
Savings From Employee Contributions	16.0	32.6	48.6
Suspend Deferred Compensation Match	7.0	7.0	14.0
Savings From VSDP, Health Credit and VALORS	4.5	4.7	9.2
Subtotal	27.5	44.3	71.8
Sale of Land	20.2	-	20.2
Auxilary Enterprise Balances	18.8	-	18.8
Unreserved Motorist Fund	3.2	3.2	6.4
State Insurance Reserve Fund Balance	4.4	-	4.4
Other	14.1	9.8	23.9
Total September-December Budget Reductions	88.2	57.3	145.5
Policy Adjustments			
Eliminate Dealer Discount-Sales Tax	60.9	60.9	121.8
Deconform for §199 Deductions	30.0	30.0	60.0
Interest on NGF Accounts	23.8	23.8	47.6
ABC Markup (+2.0%)	4.0	4.0	8.0
Boiler Inspection Fee	0.3	0.4	0.7
Economic Development Incentive	(2.4)	(0.3)	(2.7)
Federal Tax Conformity	(6.4)	2.1	(4.3)
Taxation of Military Spouses (Federal legislation)	(9.9)	(9.9)	(19.8)
Total Policy Adjustments	100.3	111.0	211.3
Total Revised GF Revenue and Transfers - Introduced Budget (HB/SB 30)	**$ 14,858.1**	**$ 15,587.2**	**$ 30,445.3**
Percent Change From December 2008 Forecast	-12.4%	-10.8%	-10.9%

The Projected Balance In The Revenue Stabilization Fund Will Be $351.2 Million After The Proposed FY 2010 Withdrawal of $292.9 Million And The Proposed $40 Million Deposit in FY 2012…

Revenue Stabilization Fund -- June 30 Balance
FY 1995-09 Actual and FY 2010-2012 Forecast
(millions of dollars)



Certain Fee Increases Are Also Proposed Outside of the Budget to Fund Related Services and Help Offset Budget Reductions

Public Safety Fund Fee	• Provides 0.5 percent fee on property and casualty premiums – Revenue deposited into the Virginia Public Safety Fund – $22.0 million in FY 2011 and $44.0 million in FY 2012 •Fund proceeds appropriated to – State Police: STARS maintenance and counter terrorism – Sheriffs: law enforcement and court security – Local Public Safety: 599 program
Line of Duty Program Fee	•Provides $0.18 fee increase for each line assessed the E-911 fee – Revenue deposited into the Line of Death and Health Benefits Trust Fund – $18.6 million in FY 2011 and $20.3 million in FY 2012 •Trust Fund proceeds used to – Provide death and disability health benefits to beneficiaries and eligible dependents – Address the program's estimated $199.0 million unfunded liability
Recordation Fee	•Provides a $10 fee increase on every deed that the recordation tax is applied – Revenue deposited into the Virginia Natural Resources Commitment Fund •Fund proceeds used for agricultural best management practices cost share program

Providing Local Governments The Tools To Eliminate The Car Tax For Good...

- When state funding was capped at $950 million by the General Assembly in 2004, the state reimbursed localities 70 percent for personal property taxes.
  - Percentage reimbursed by state has declined below 70 percent for most localities.

- Legislation will provide localities the option to completely eliminate the local Tangible Personal Property Tax on all personal use vehicles beginning in tax year 2011.

- For FY 2010, localities will continue to receive the annual $950 million state reimbursement payments
  - $950 million appropriation not continued in FY 2011 and 2012.

- Localities will be provided a replacement revenue source from the proceeds of an individual income surtax.
  - The income surtax would be imposed at an annual rate of one percent.

- Projected to provide localities with $1.6 billion in FY 2011 and $2.0 billion in FY 2012.
  - Allocate using same methodology used to distribute current $950 million reimbursement.
  - Methodology certified by the Auditor of Public Accounts in 2006.

APPENDIX

U.S. Economic Indicators

Virginia Economic Indicators

General Fund Forecast for FY 2010 through FY 2016

Commonwealth Transportation Fund Forecast, FY 2010-2016

Virginia Health Care Fund Forecast, FY 2010 through 2016

GACRE November Standard Revenue Forecast

GACRE November Alternative Revenue Forecast

Growth in General Fund Revenues, FY 1961 through FY 2012

Nongeneral Fund Forecast for FY 2010 through FY 2016

November 2009 Revenue Report