



Presentation for
Virginia FREE

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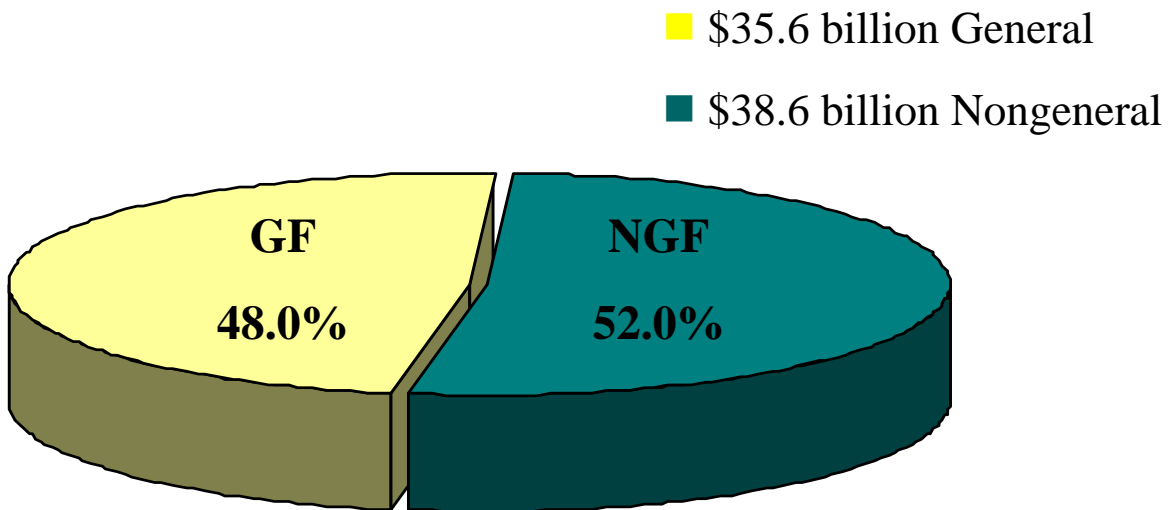
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September 6, 2007

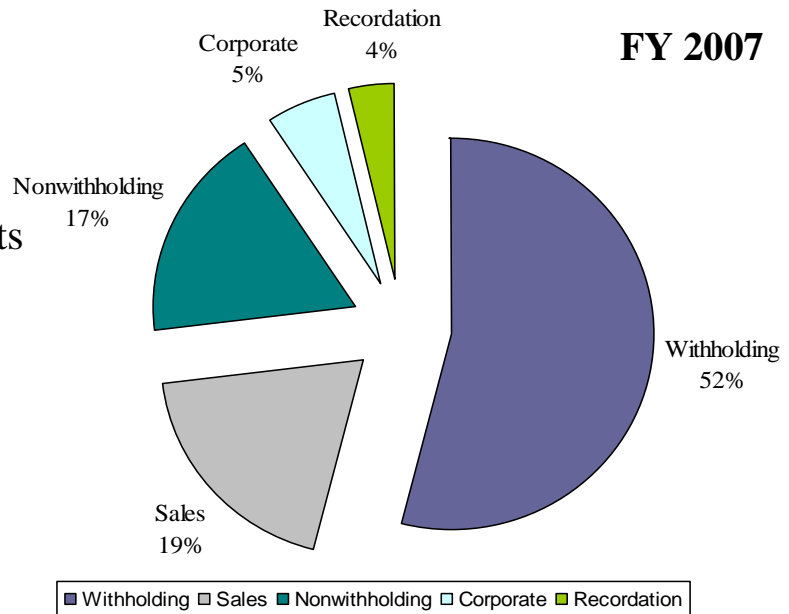
2006-2008 Budget: General Fund vs. Nongeneral Fund

Appropriations – \$74.2 Billion

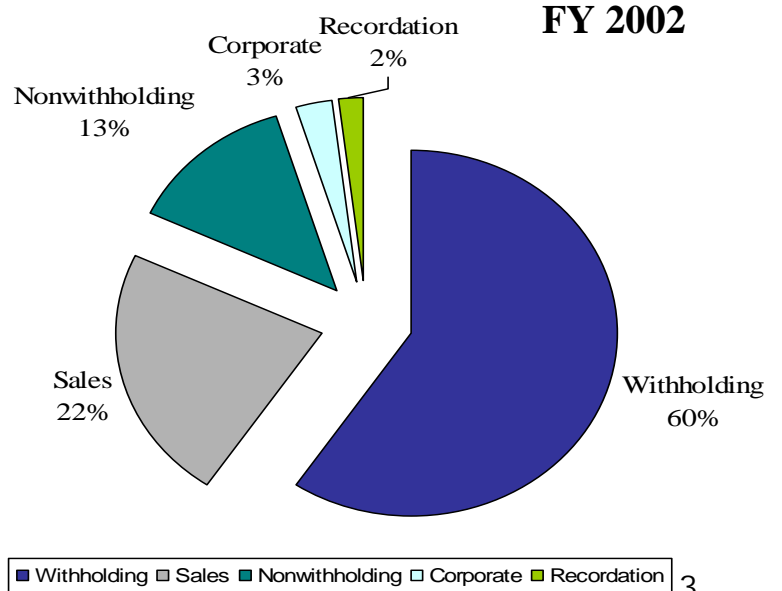


Components of General Fund Revenues

o In FY07, individual nonwithholding, corporate income, and recordation tax payments accounted for \$4.3 billion of GF Revenues. Up significantly from FY02's \$2.0 billion.

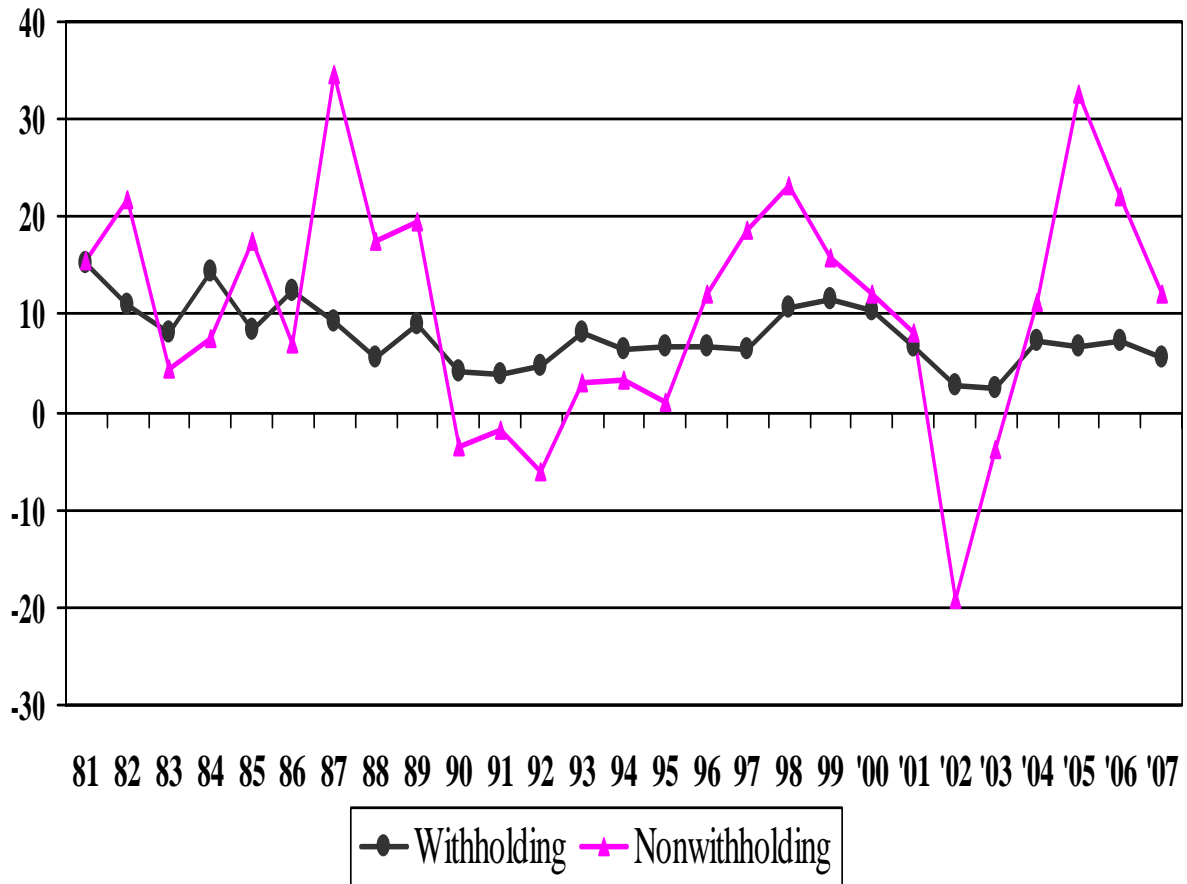


o In FY02, 83% of GF Revenues were from withholding and sales tax collections. In FY07 71% were from those sources.



Withholding and Nonwithholding Fiscal Year Percent Change

Percent Change





Virginia Completed Fiscal Year 2007 \$234 Million Shy of the Forecast

- Net individual income taxes fell \$111.8 million below forecast in Fiscal Year 2007.
- Both withholding and nonwithholding receipts grew, but much of the gains were given back in refunds.
- When the Fiscal Year 2007 shortfall is added to the reduced revenue forecast for Fiscal Year 2008, the total shortfall grows to \$641 million in the current biennium.

The FY07 Forecast Variance was In Line
With the Average Historical Forecast
Variance...

Annual Revenue Surplus/Shortage
Forecast Error on the Revenue Estimate
(millions of dollars)

<u>Fiscal Year</u>	<u>Nominal Dollars (\$)</u>	<u>Percent (%)</u>	<u>Real Dollars (\$)</u>
1988	115.3	2.3	159.5
1989	27.4	0.5	36.3
1990	(149.4)	(2.6)	(190.1)
1991	51.5	0.9	62.7
1992	44.2	0.8	52.2
1993	112.1	1.9	129.0
1994	25.5	0.4	28.8
1995	51.6	0.8	56.9
1996	53.4	0.7	57.7
1997	198.3	2.6	209.9
1998	173.5	2.0	181.6
1999	155.3	1.6	160.7
2000	5.8	0.1	5.9
2001	(76.0)	(0.7)	(75.1)
2002	(237.0)	(2.2)	(230.8)
2003	60.5	0.6	57.8
2004	323.8	2.8	303.0
2005	544.6	4.1	496.0
2006	147.0	1.0	129.8
2007	(234.4)	(1.5)	(202.4)

- The 20-year average forecast variance is ± 1.6 percent.

Individual Income Tax Refunds Exceeded the Official Estimate by \$222.7 Million...

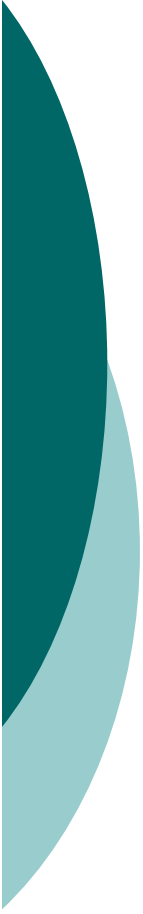
- Individual refunds increased 21.6 percent from FY06 compared with the forecast of 4.2 percent growth.
- The extraordinary growth in refunds during the 2007 filing season was primarily driven by growth in refunds greater than \$1,000.

Individual Income Tax Refunds

A Comparison of the 2006 and 2007 Filing Season
(millions of dollars)

Range	Jan-Jun 2006		Jan-Jun 2007		Change	
	Returns	Dollars	Returns	Dollars	Returns	Dollars
< \$500	1,616,341	\$272.4	1,577,067	\$279.0	(39,274)	\$6.6
\$500 - \$1,000	397,556	282.8	451,509	319.3	53,953	36.4
\$1,000 - \$2,500	242,772	350.9	280,844	411.5	38,072	60.6
\$2,500 - \$5,000	25,613	82.9	35,104	114.2	9,491	31.3
> \$5,000	4,688	61.5	7,949	97.3	3,261	35.8
Total	2,286,970	\$1,050.5	2,352,473	\$1,221.3	65,503	\$170.8

- Large refund growth is a combination of overpayment of estimated income taxes throughout the year and increased tax credits claimed on final returns.



Individual Income Tax Refunds Exceeded the Official Estimate by \$222.7 Million (continued)...

- Components of the \$222.7 million excess in refunds:

Land Preservation Credit:	\$75 million (7%)
Expansion of the Low Income Credit:	\$33 million (3%)
Base Forecast:	\$115 million (12%)

- Other states that experienced a boom in housing activity have also experienced strong growth in individual refunds.
 - California: 8%
 - Maryland: 8%
 - New York: 22%
 - Oregon: 20%
 - Virginia: 12%

Individual Income Tax Refund Growth Was Close to Recessionary Rates...

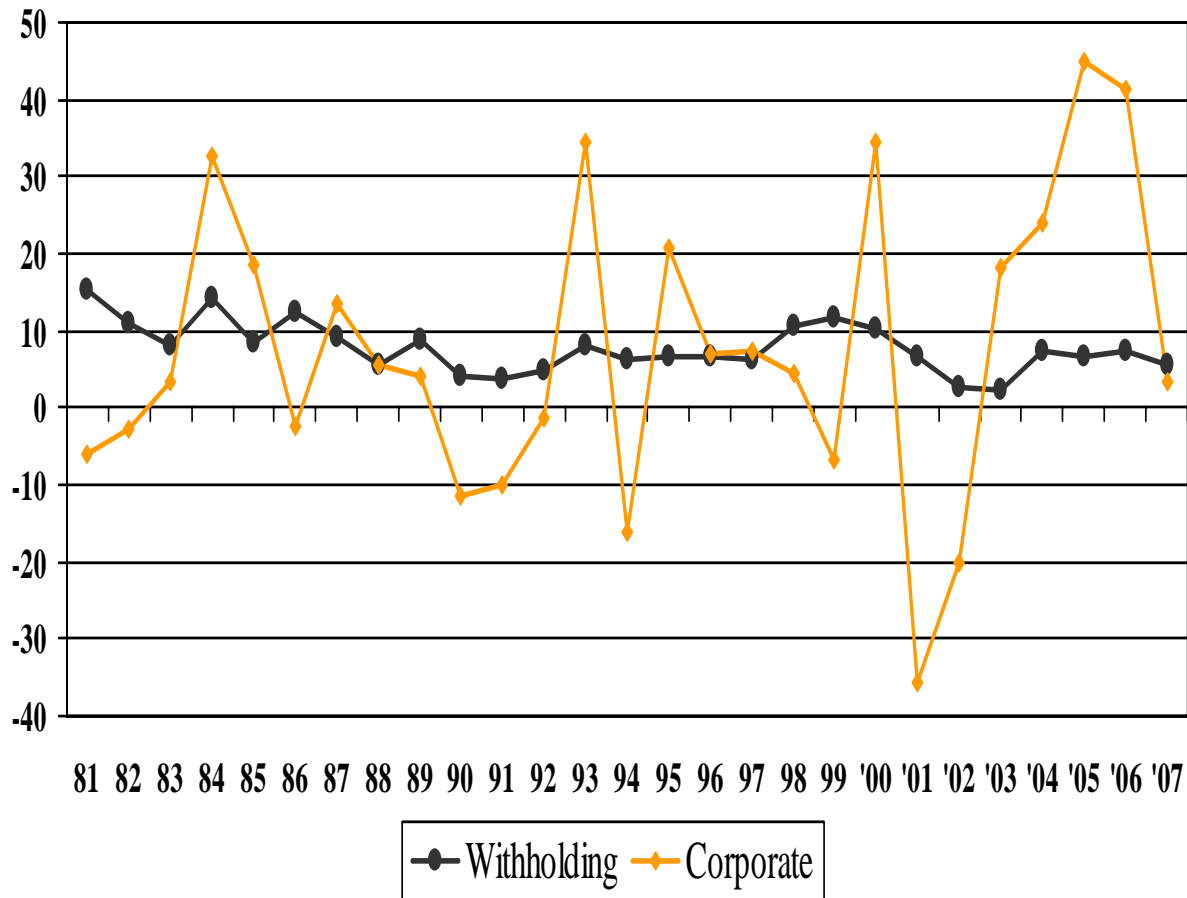
- Individual income tax refund growth has not been this strong outside of an economic recession.
 - The strong growth in FY99 was attributable to an increase in electronic filing.

Individual Income Tax Refunds (millions of dollars)

<u>Fiscal Year</u>	<u>Total Refunds</u>	<u>% change</u>
1987	517.6	
1988	440.2	-14.9%
1989	449.5	2.1%
1990	559.9	24.6%
1991	498.6	-11.0%
1992	506.2	1.5%
1993	514.3	1.6%
1994	526.1	2.3%
1995	553.8	5.3%
1996	579.1	4.6%
1997	617.1	6.6%
1998	638.2	3.4%
1999	711.9	11.5%
2000	702.0	-1.4%
2001	835.4	19.0%
2002	1,171.1	40.2%
2003	1,194.4	2.0%
2004	1,217.2	1.9%
2005	1,234.3	1.4%
2006	1,282.6	3.9%
2007	1,556.6	21.4%

Withholding and Corporate Fiscal Year Percent Change

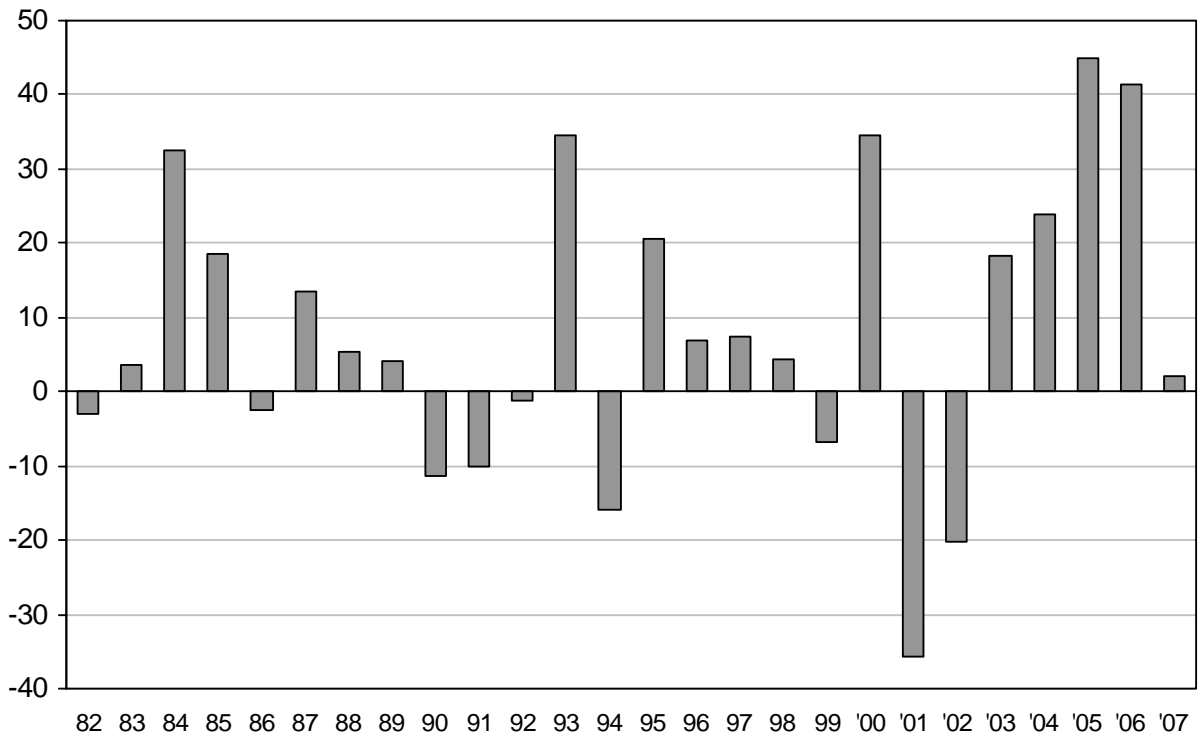
Percent Change



Corporate Income Tax Receipts Were Slightly Weaker Than Expected in FY07, Finishing \$11.5 Million Below Forecast...

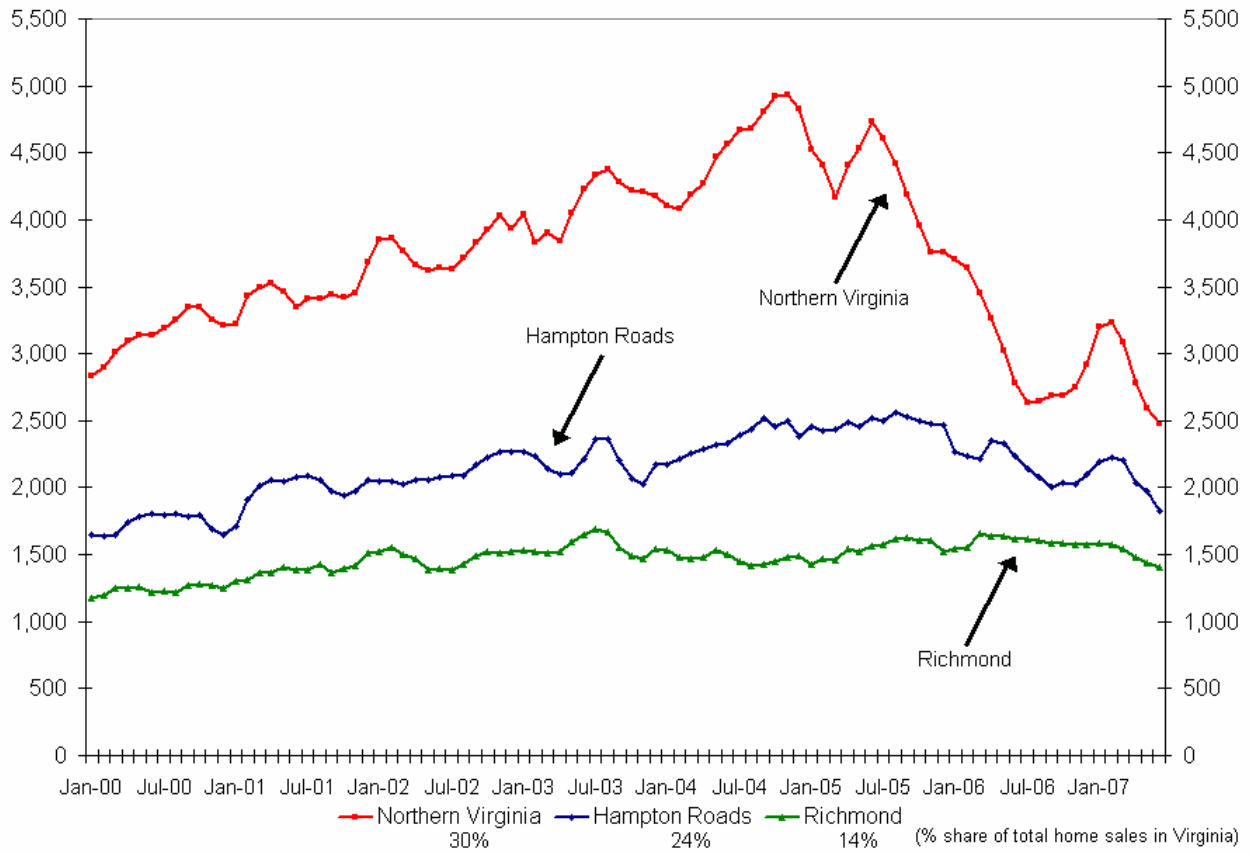
- Corporate income tax collections increased 2.1 percent in FY07, down substantially from the 32 percent annual increase averaged over the last four fiscal years.

Growth in Net Corporate Income Tax Receipts, FY82-07
Percent Growth Over the Prior Year



Pending Home Sales, a Leading Indicator of Future Closings, Illustrate the Weakness in Housing...

Pending Home Sales
Northern Virginia, Hampton Roads, and Richmond
(Seasonally-adjusted Three-month Moving Average)

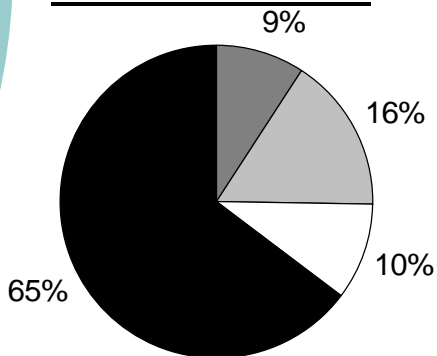


The Share of Corporate Income Tax Receipts Attributable to Housing Declined Significantly Between FY06 and FY07...

Corporate Income Tax Receipts From Large Companies

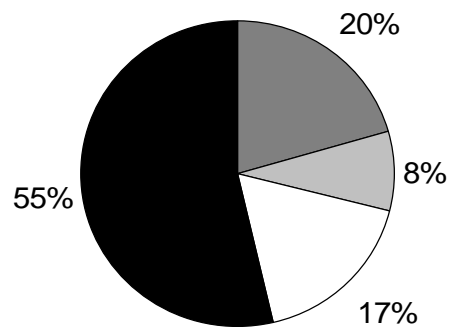
Final and Estimated Payments in April-June By Industry Percent Share of Total

Fiscal Year 2006

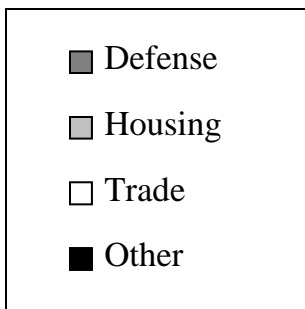


\$232 million

Fiscal Year 2007



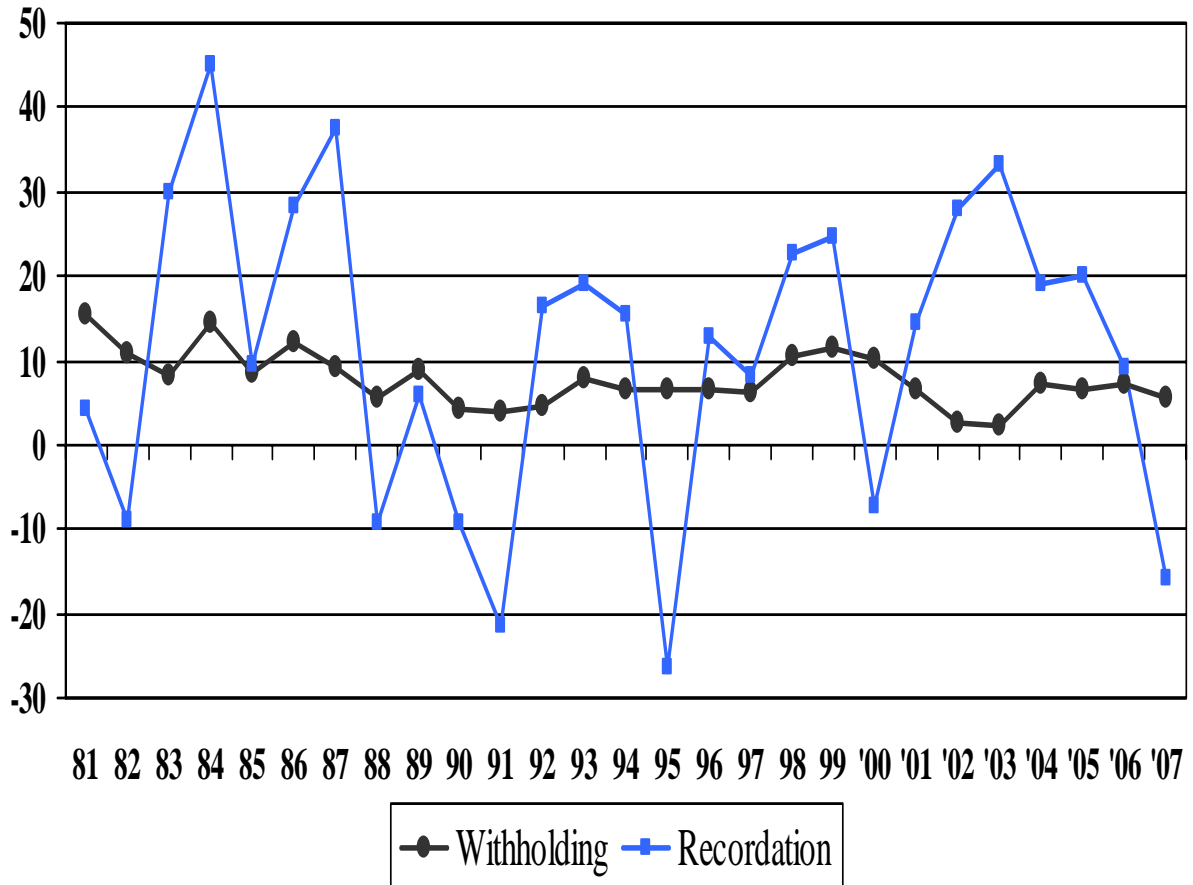
\$191 million



- The top 200 corporate payers represent about 53% of total gross payments.
- Housing is defined as mortgage companies, home builders, and real estate-related companies.

Withholding and Recordation Fiscal Year Percent Change

Percent Change



Note: Recordation growth rate is adjusted to remove the rate increase.

Recordation Tax Receipts Declined 16.2 Percent in FY07, Slightly Better Than the Forecast of a 20.2 Percent Decline...

- Collections were \$28.5 million ahead of the Official forecast.
- From FY01 through FY06, 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 resulted in declines in volume and a significant deceleration in price growth, increasing the drag on collections in FY07.

Home Sales and Average Sales Price

FY07 Percent Change over FY06

	<u>Home Sales</u>	<u>Average Sales Price</u>
State Total	-16.9%	1.5%
Northern Virginia	-25.2%	-2.0%
Hampton Roads	-11.9%	4.9%
Richmond	-4.5%	7.2%

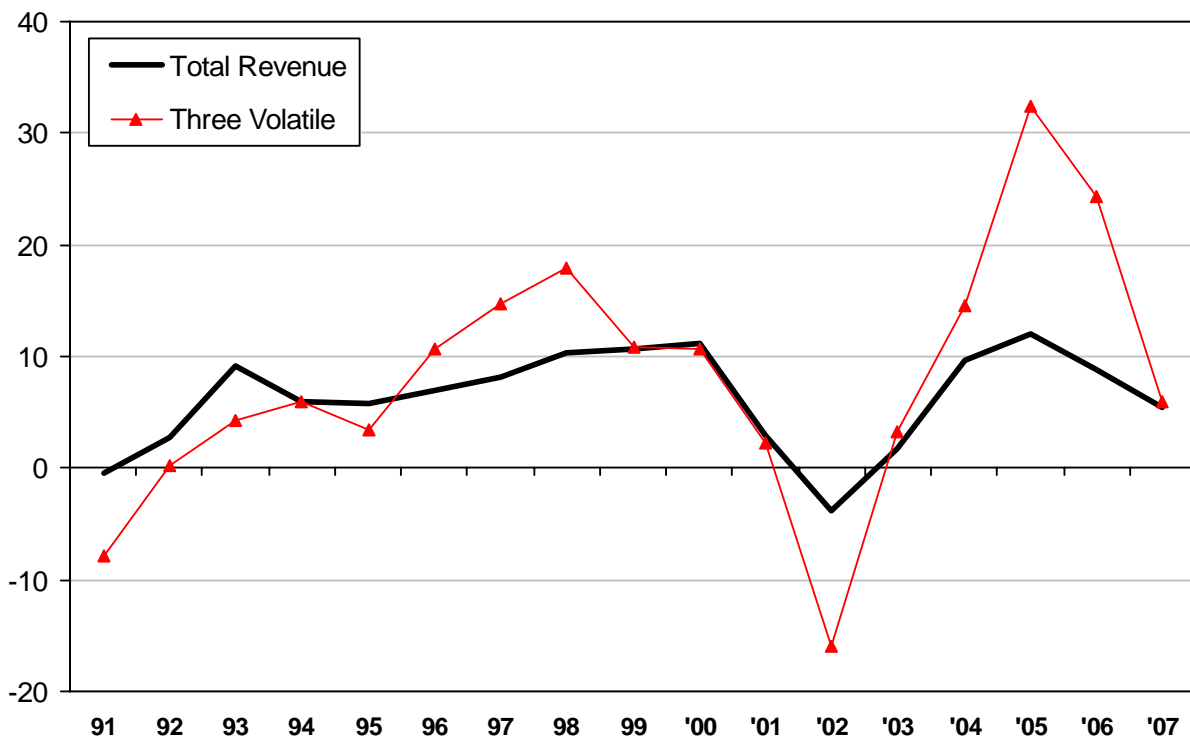
Source: Virginia Association of Realtors

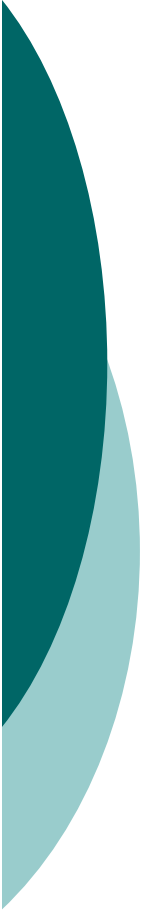
- From FY04 through FY06, the average sales price in Virginia increased an average of 15 percent per year.

Total General Fund Revenues Have Become Increasingly Volatile...

- The increased significance of individual nonwithholding, corporate income, and recordation tax have introduced additional variability into collections.
 - Taken together, the three most volatile revenue sources represented 28 percent of total revenues in FY07 compared with the historical average of 21 percent.

Volatility in Total Revenues, FY91-07
Percent Growth Over the Prior Year





In August, We Revised the Forecast for Total General Fund Revenues Over the Next Three Years Down by 2.4% ...

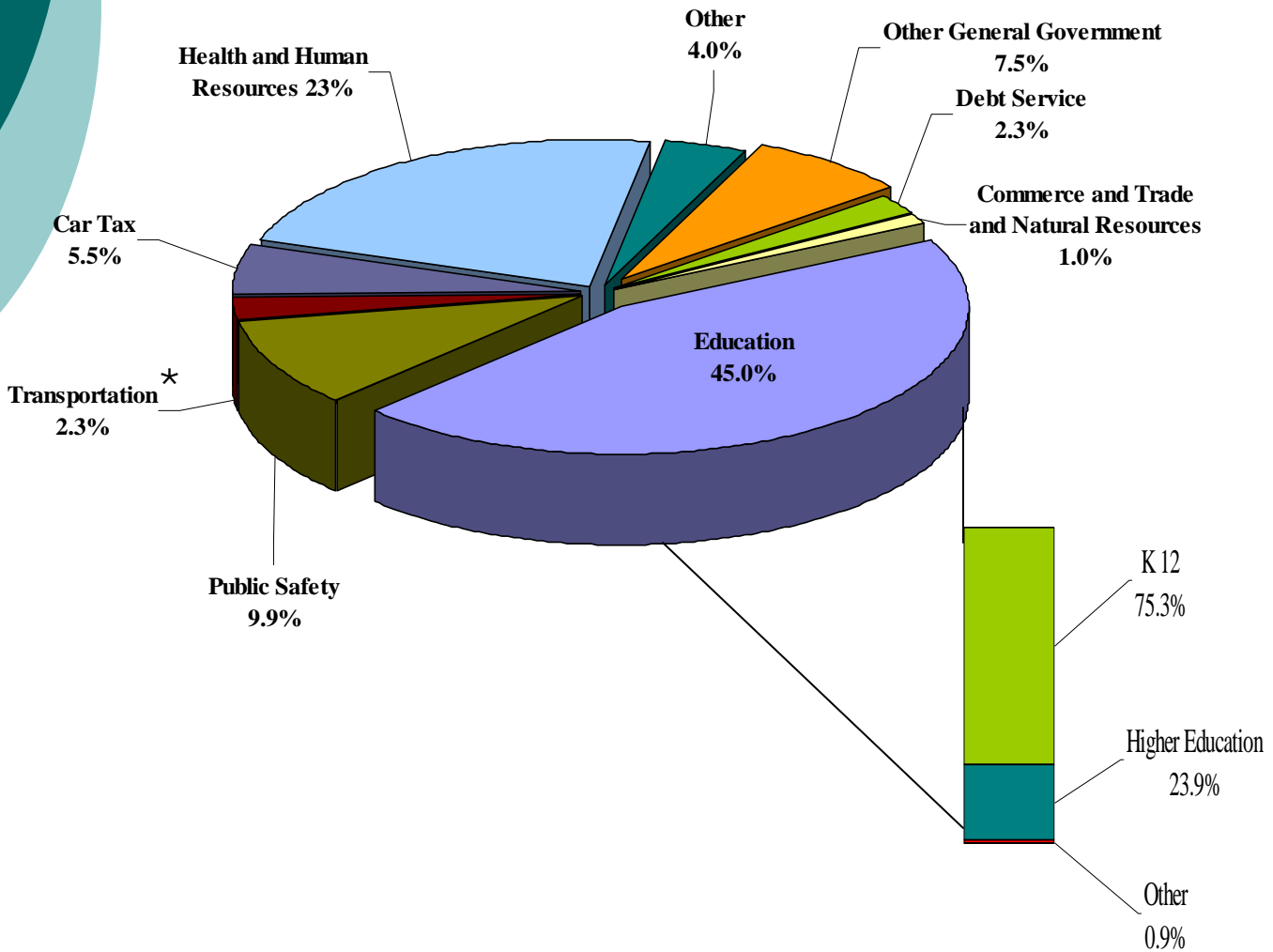
- The bulk of the downward revision in the August interim forecast is attributable to:
 - Increased forecast of refunds issued.
 - Decreased forecast of sales tax collections.
 - Decreased forecast of corporate income tax collections.
 - Decreased forecast of recordation tax collections.

<i>Annual % Change</i>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
Revenue Base	3.0%	3.7%	6.5%
Economic Base	3.1%	5.7%	6.5%

- Economic base growth rates adjust for the repeal of the estate tax effective July 1, 2007, and the transfer of one-third of prior year insurance company premiums and \$0.03 of recordation tax to transportation beginning in FY09.

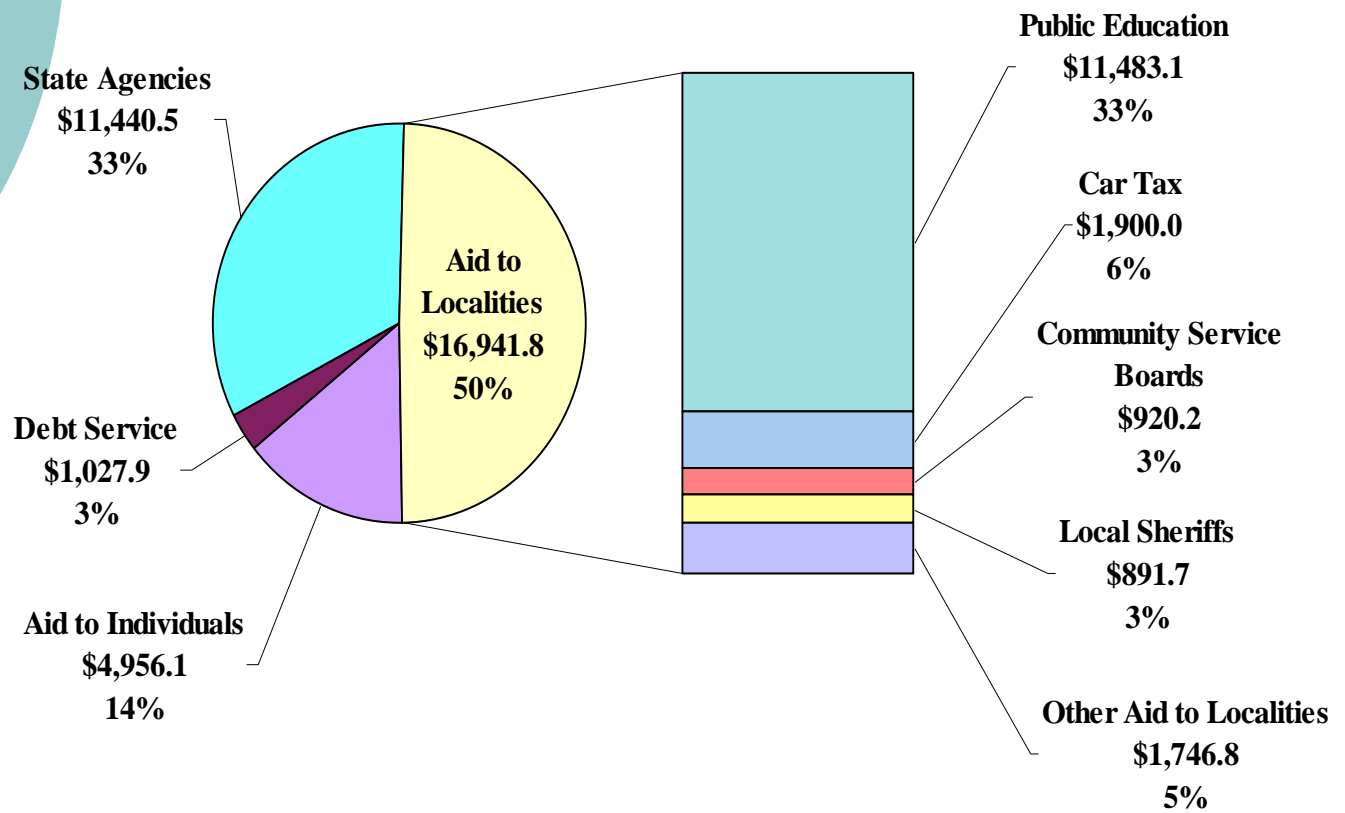
Where the Money Goes 2006-2008 (General Fund Operating) = \$35.6 Billion

■ 77.5% of state general fund revenues are for public education, public safety, and health programs.



* Transportation includes one-time general fund appropriations of \$500 million in the 2006-2008 biennial.
 "Other" includes legislative and judicial branches, technology, natural resources, independent agencies, and non-state agencies. "General Government" category includes administration, finance, executive offices, and central appropriations. "Other Education" includes Education Secretariat and Museums.
 Excludes Capital Outlay.
 Source: Appropriation Act (Chapter 847, 2007 Acts of Assembly).

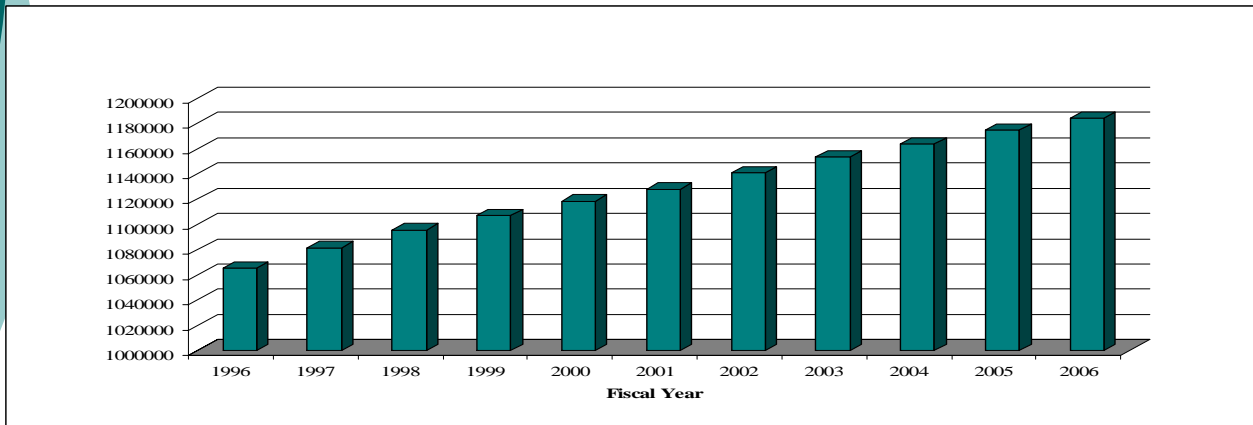
Almost One-half of the General Fund Operating Budget Goes to Localities



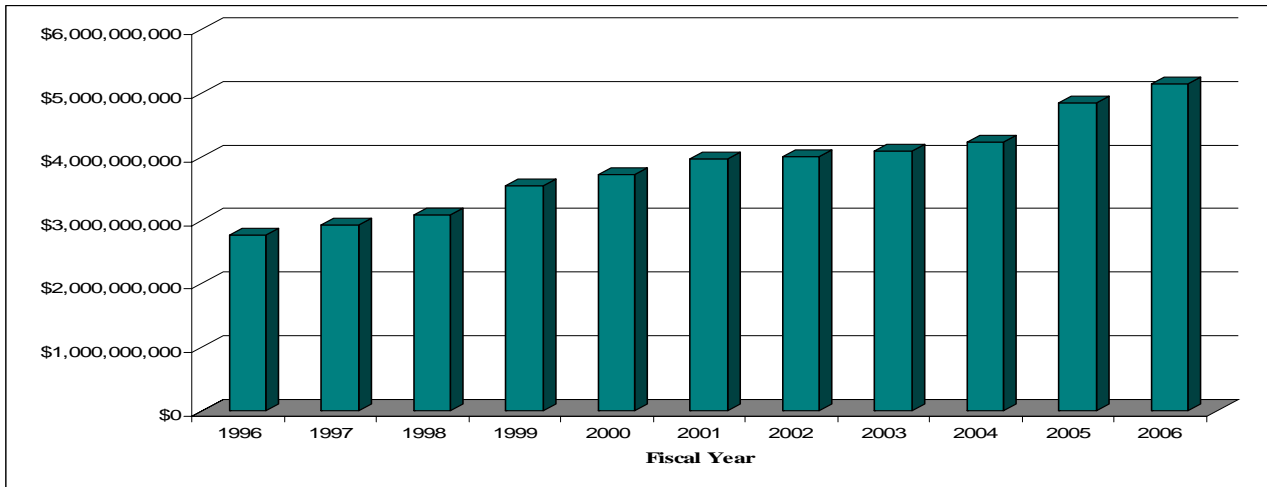
Note: Amounts are estimates only based on prior year expenditure trends.

Major Budget Driver: K-12 Education

Enrollment Trends



GF Expenditure Trends



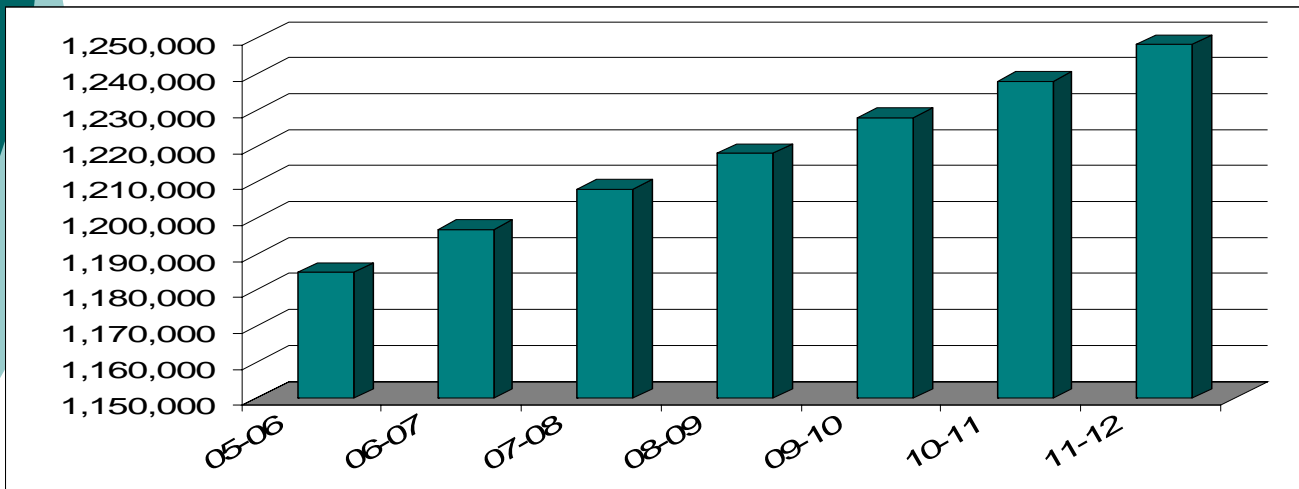
K-12 Spending Per Pupil, 2005-2006*

West Virginia	17th
Maryland	19th
Virginia	20th
South Carolina	26th
North Carolina	37th
Tennessee	44th

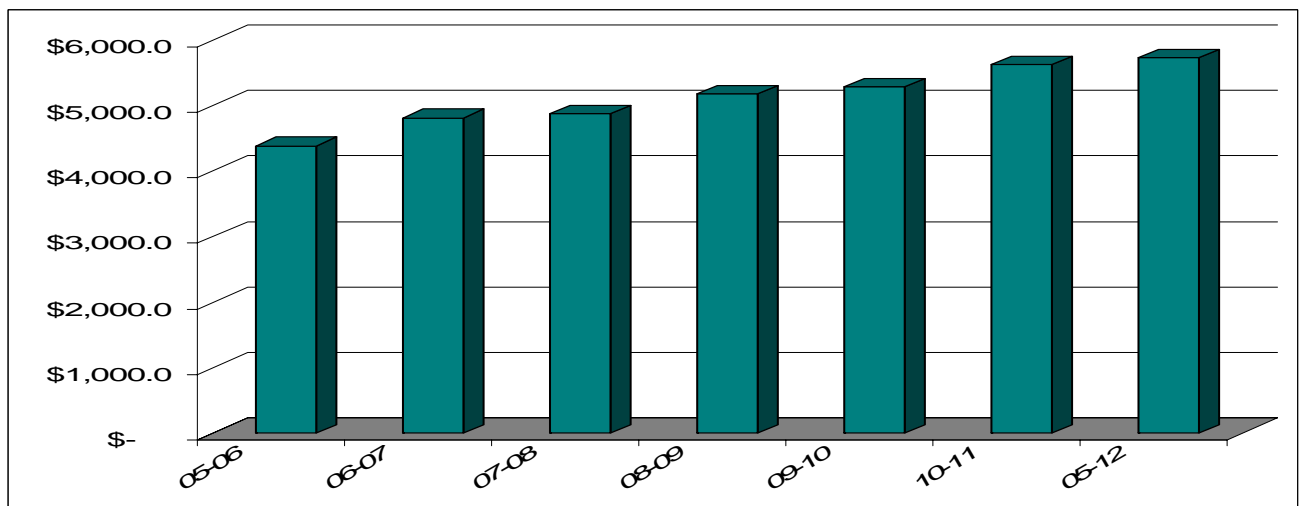
*Source: CQ's State Fact Finder, 2007.

Six – Year Projections For K-12 Education

Projected Enrollment Trends



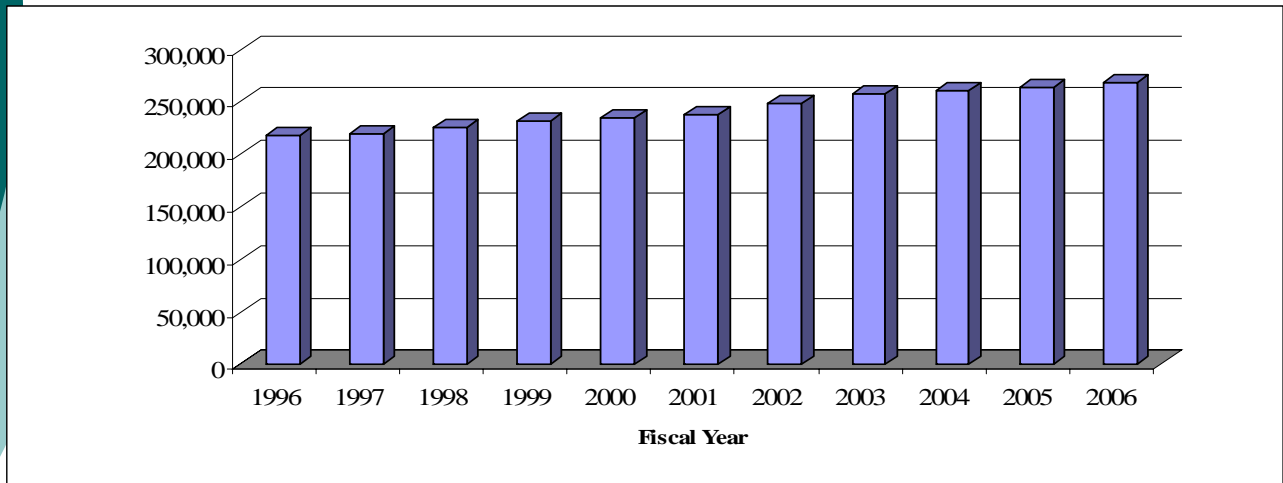
Projected GF Expenditure Trends per Average Daily Membership



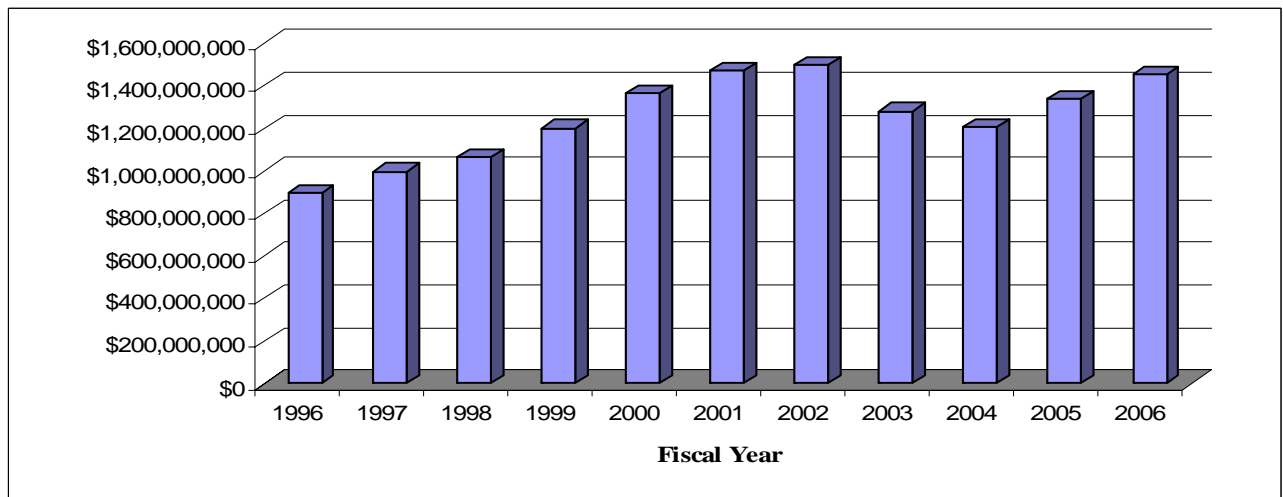
The projections contained in this chart are based on the initial Governor's introduced budget for the 2006-2008 biennium presented in December 2005 and do not reflect any revisions that have been made since its introduction. The next revision of the six year projections will be released in December 2007.

Major Budget Driver: Higher Education

Enrollment Trends (Annualized full-time enrollment)



GF Expenditure Trends



Higher Ed Spending as Percentage of GF Spending, FY 2004*

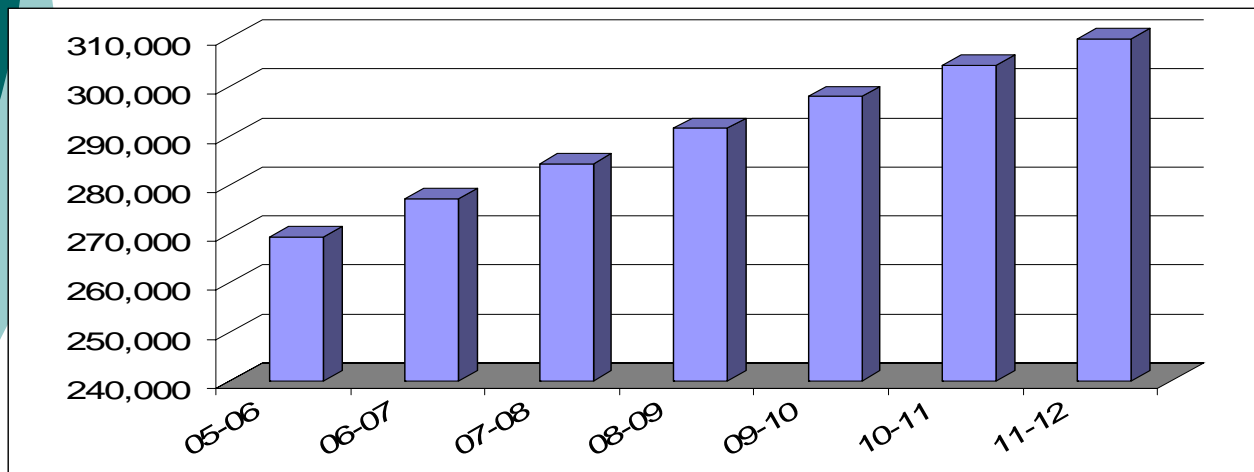
North Carolina	2nd
Maryland	20th
Virginia	26th
West Virginia	27th
South Carolina	31st
Tennessee	36th

Higher Ed: State Support Per Pupil, FY 2006*

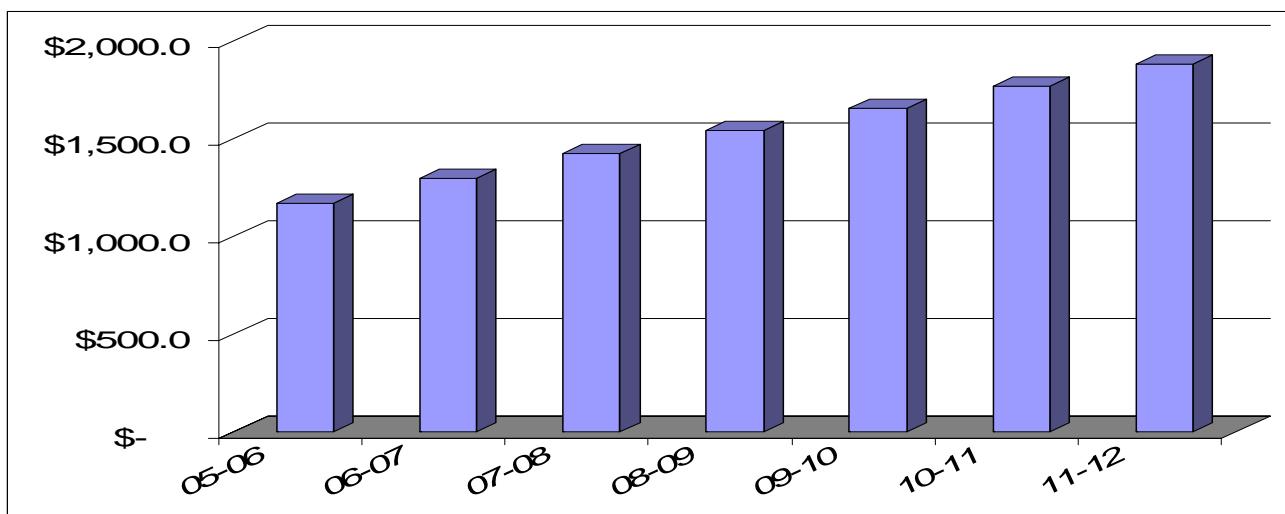
North Carolina	3rd
Tennessee	20th
Maryland	31st
Virginia	33rd
South Carolina	37th
West Virginia	45th

Six-Year Projections For Higher Education

Projected Enrollment Trends



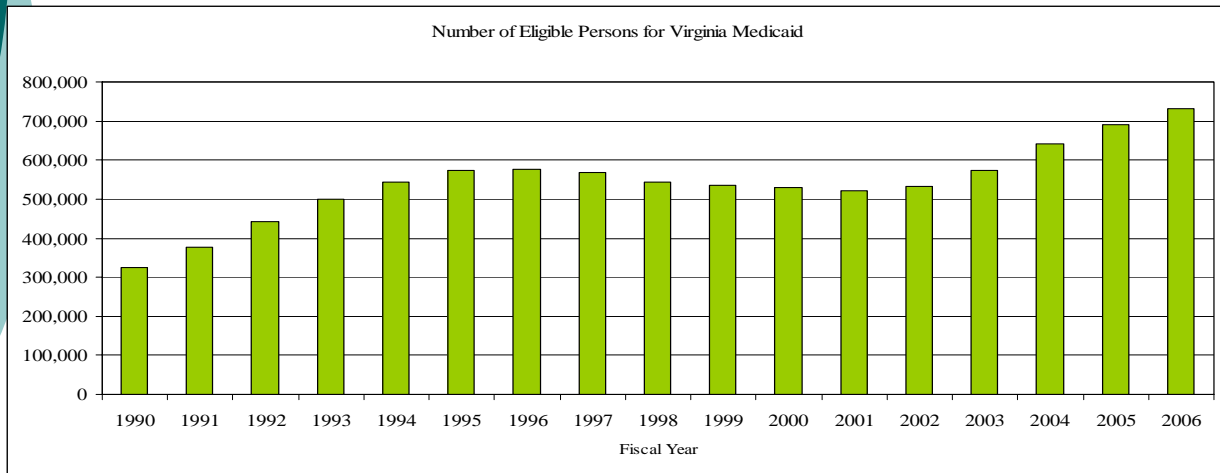
Projected GF Expenditure Trends per FTE



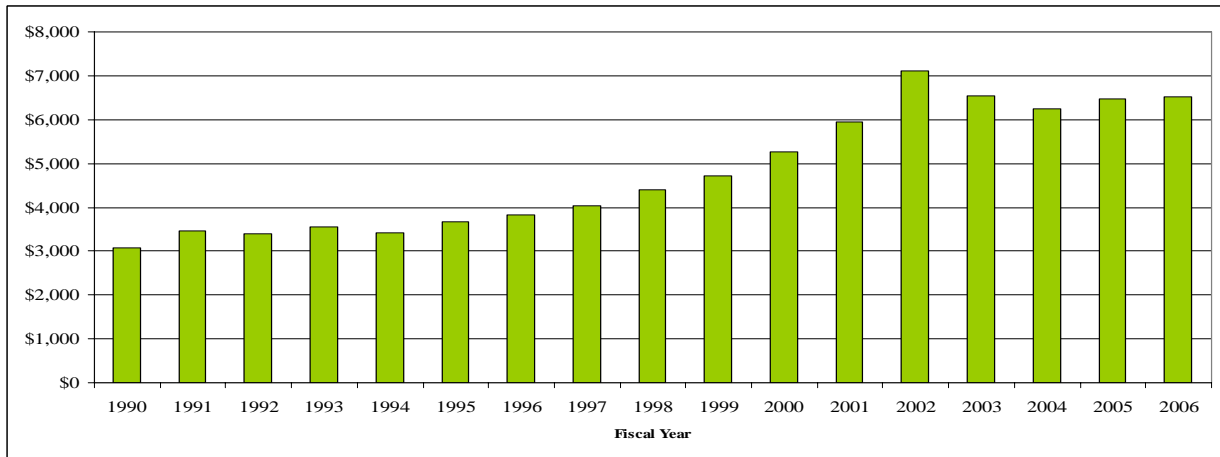
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Major Budget Driver: Medicaid

Enrollment Trends



GF Expenditure Trends per enrollee



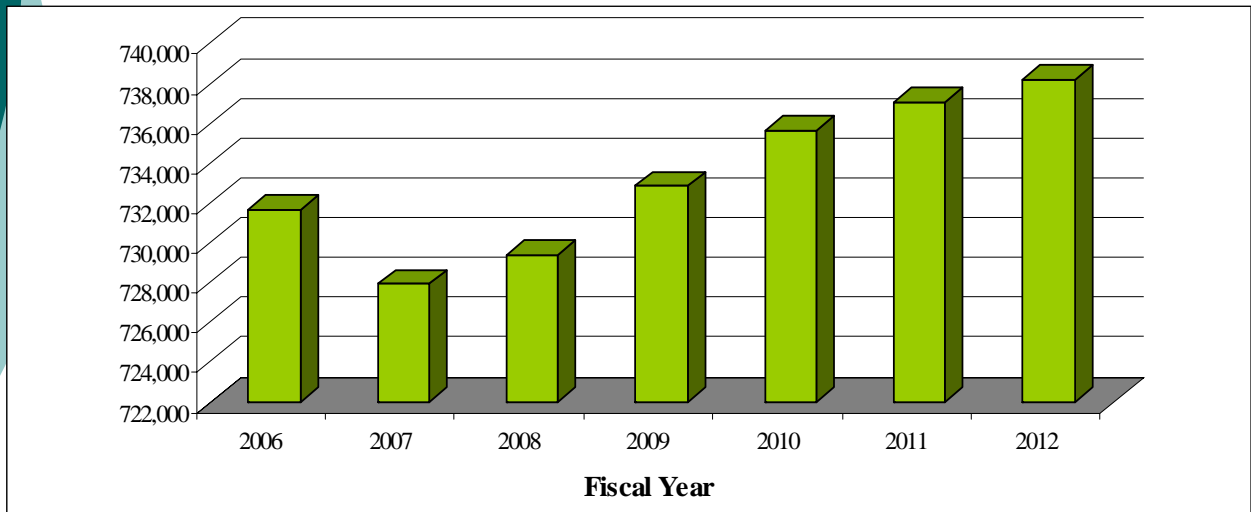
Medicaid Spending Per Capita, FY 2005*

Tennessee	8th
West Virginia	10th
North Carolina	16th
South Carolina	21st
Maryland	24th
Virginia	48th

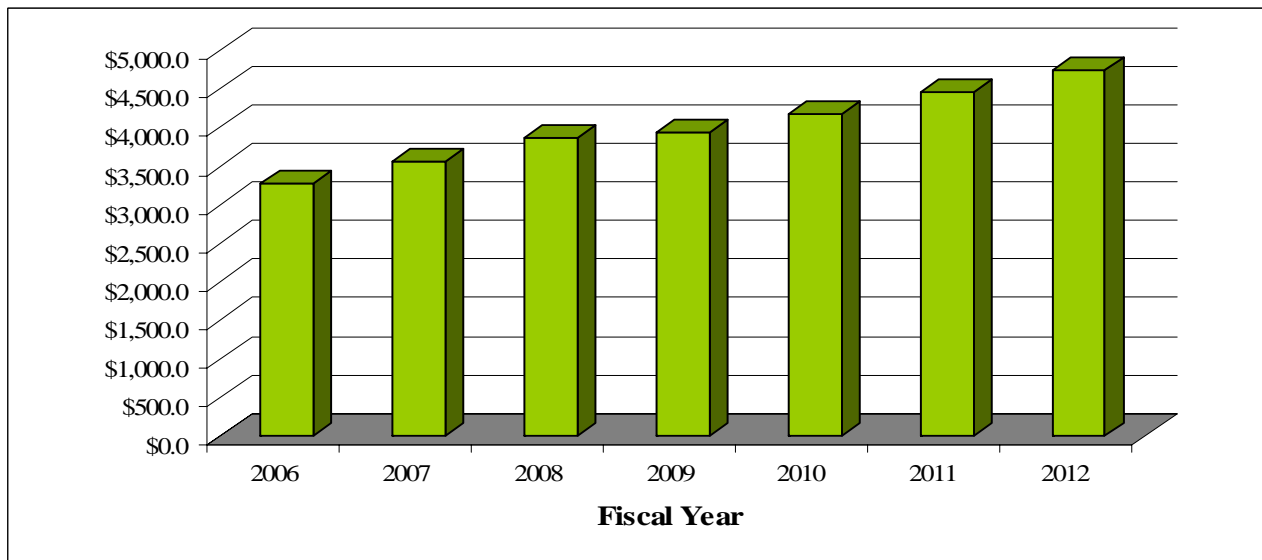
*Source: CQ's State Fact Finder, 2007.

Six – Year Projections: Medicaid

Projected Enrollment Trends



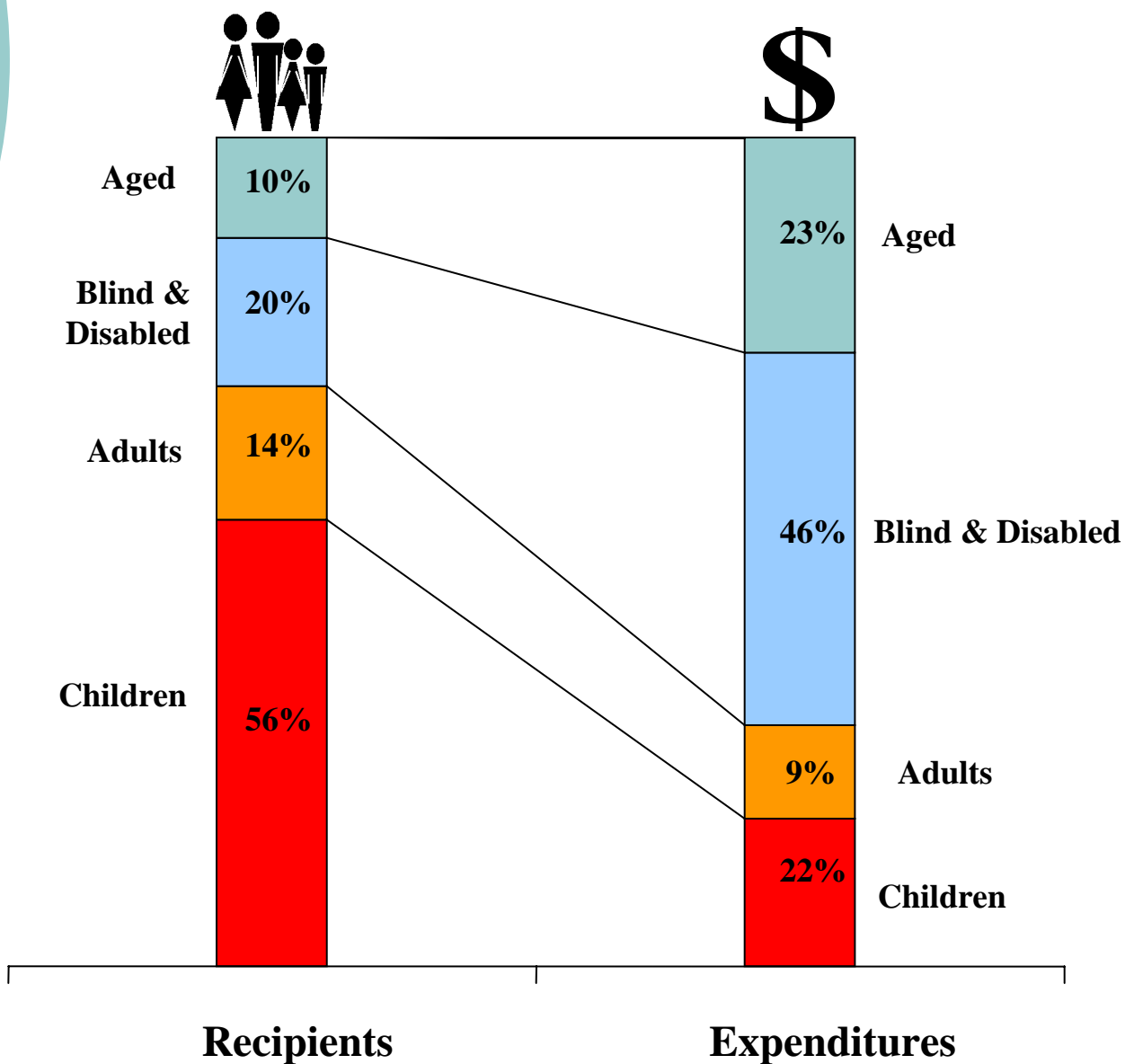
Projected GF Expenditure Trends per enrollee



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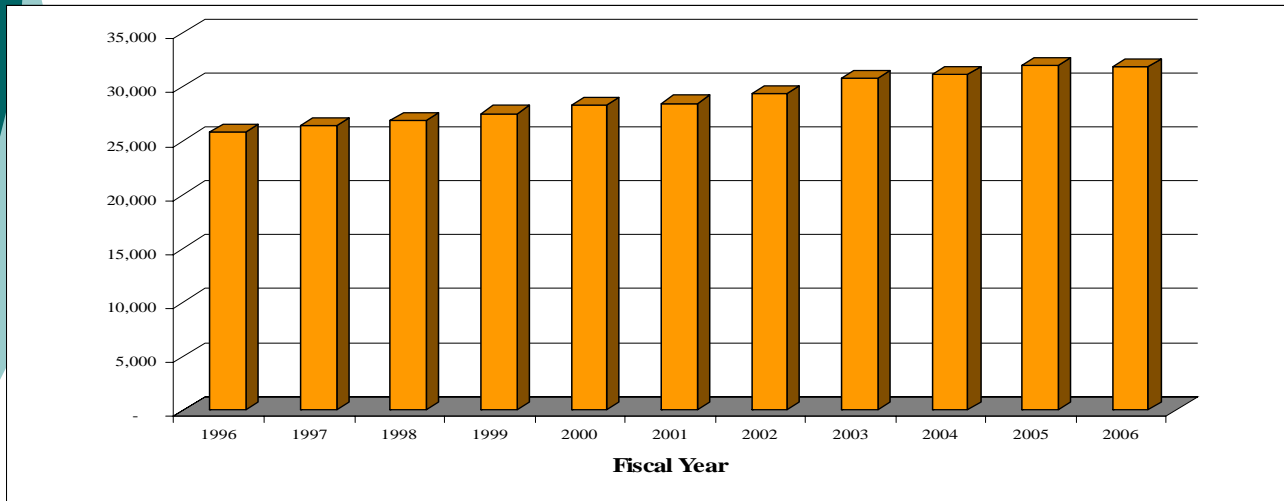
Major Budget Driver: Medicaid

Medicaid Enrollment & Expenditures, FY 2006

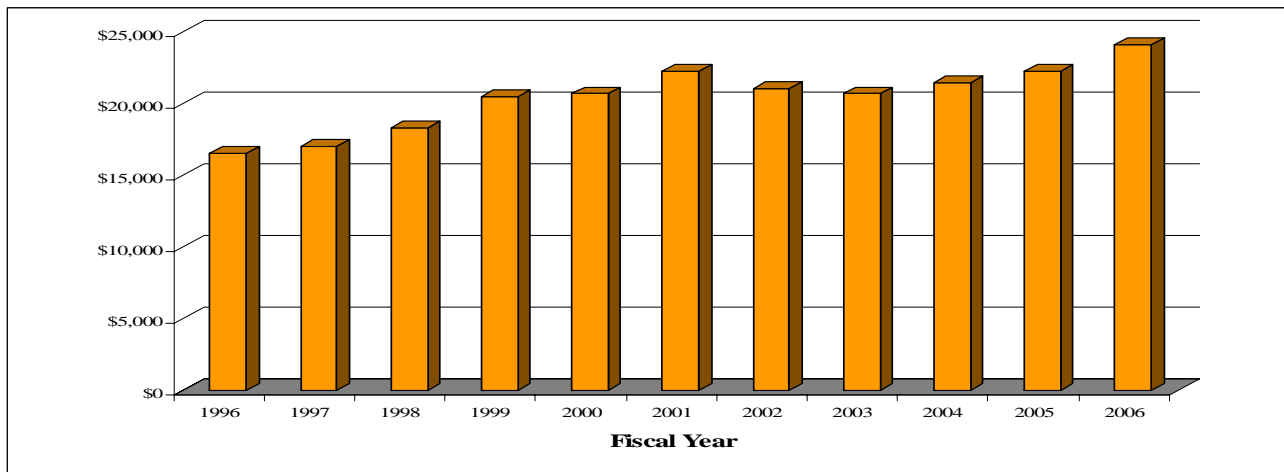


Major Budget Drivers: Corrections

Inmate Trends



Expenditure Trends per capita



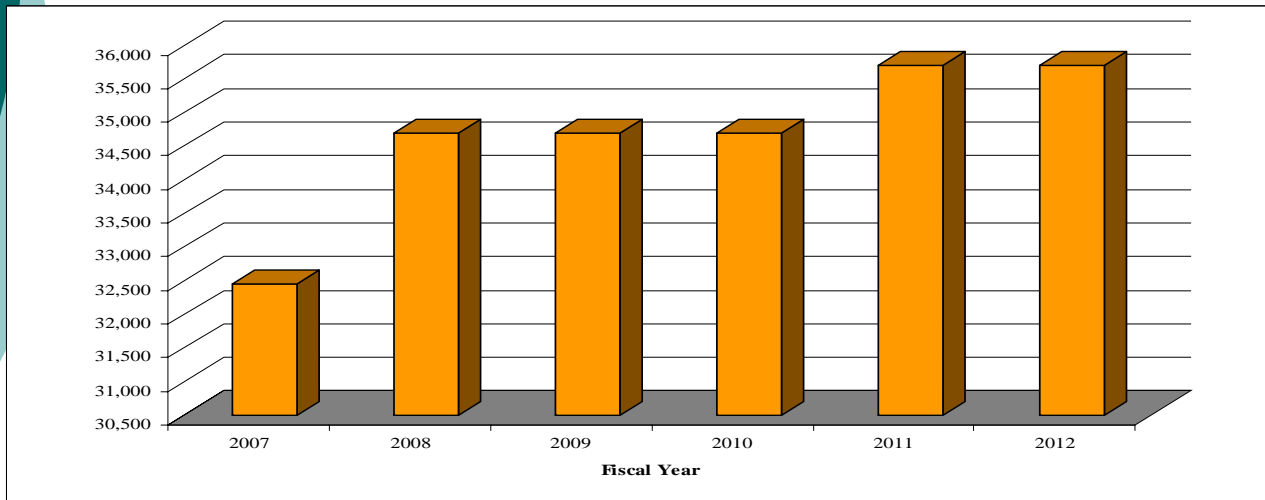
State Corrections Spending, FY 2005*

Maryland	10th
Virginia	25th
West Virginia	29th
North Carolina	30th
Tennessee	40th
South Carolina	46th

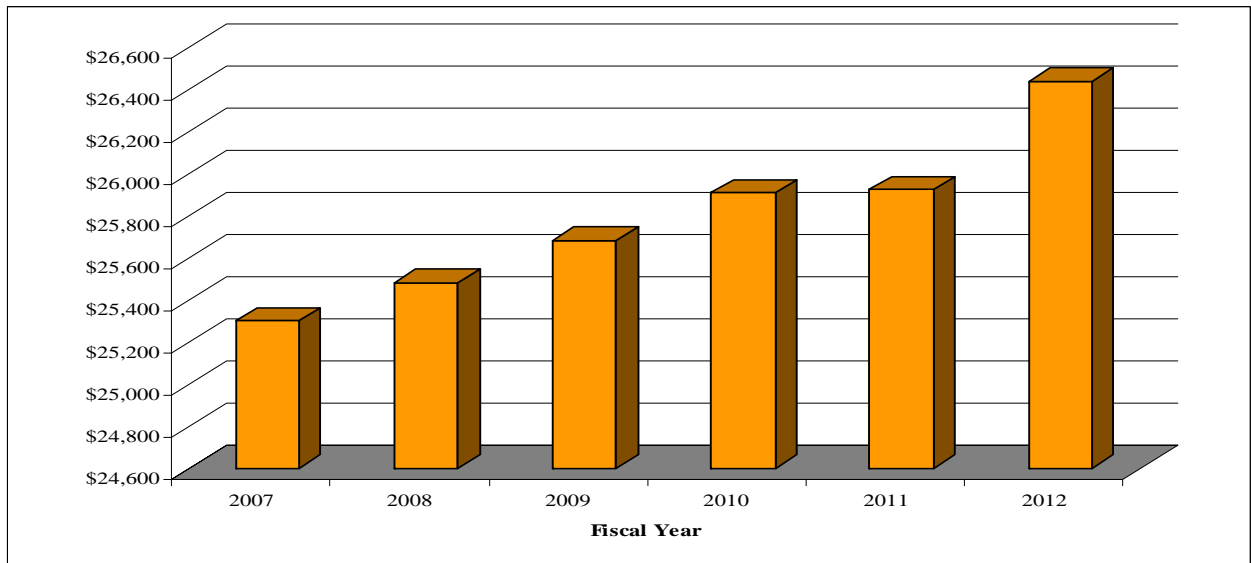
*Source: CQ's State Fact Finder, 2007.

Six – Year Projections: Corrections

Projected Inmate Trends



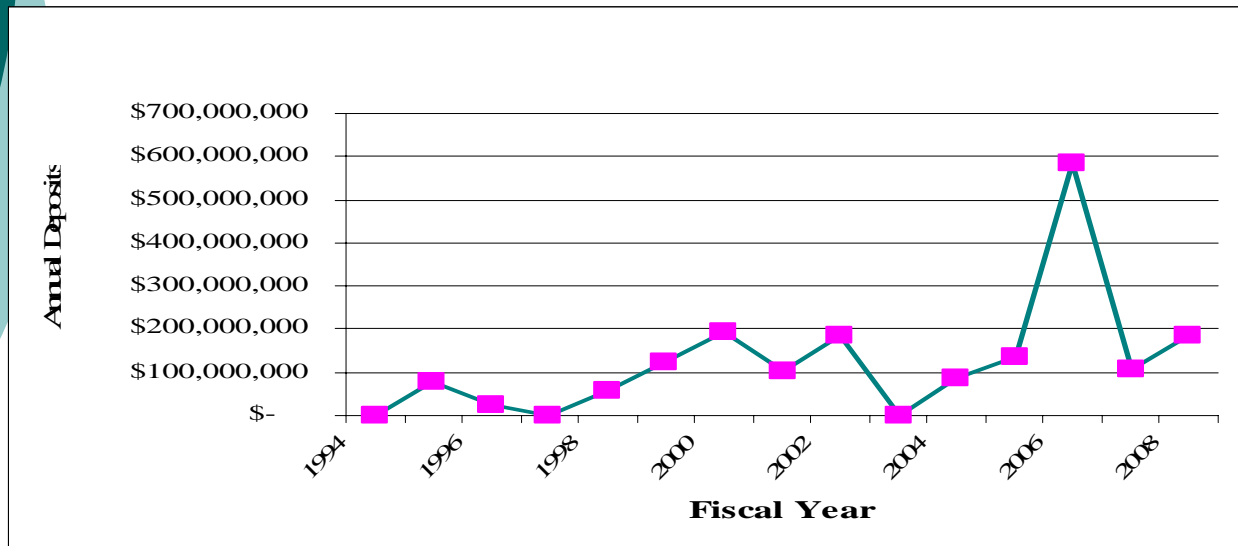
Projected Expenditure Trends per capita



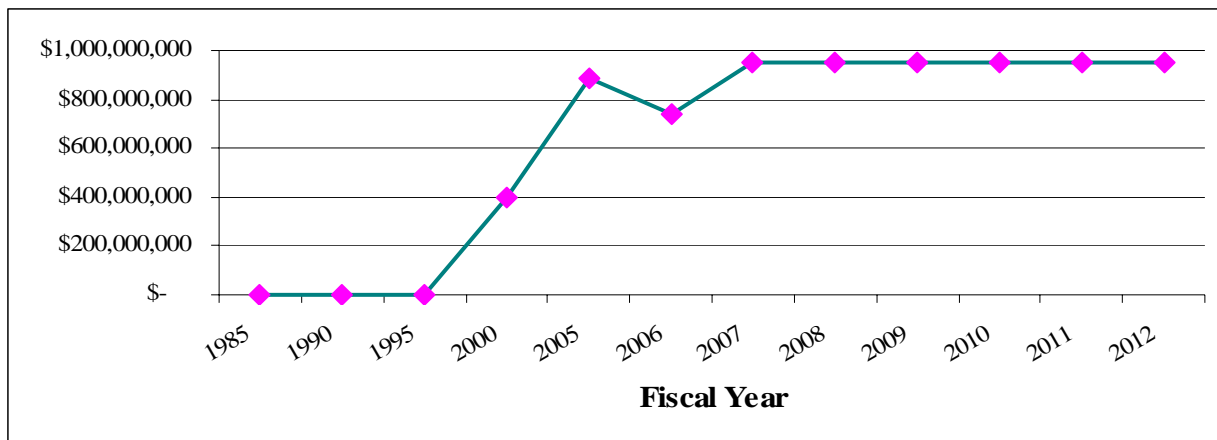
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Other Important Budget Drivers: Revenue Stabilization Fund and Car Tax

Revenue Stabilization Fund

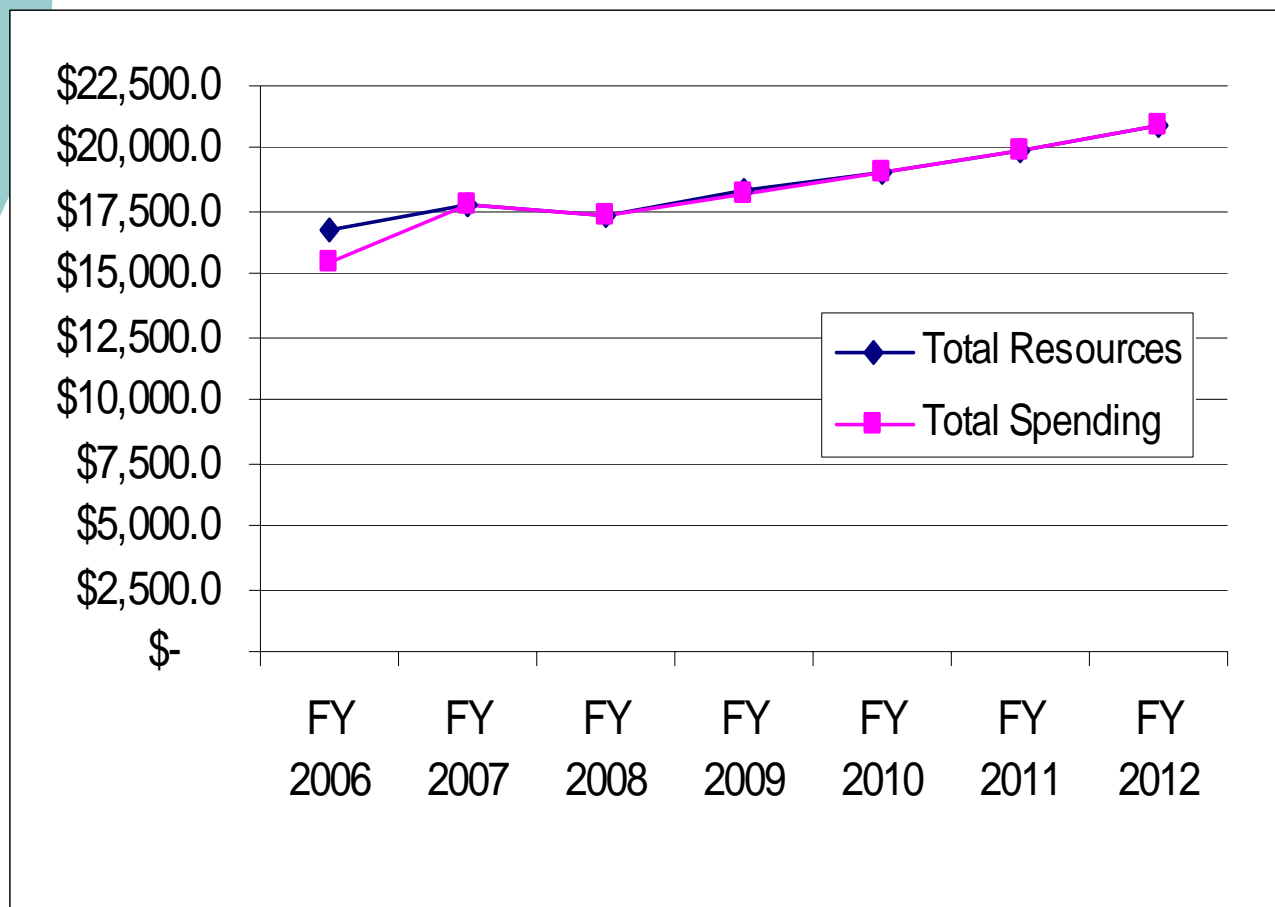


Car Tax



Six-Year Financial Projection Before Repeal of Estate Tax, Adjustment of Filing Threshold, Adoption of the Transportation Package and New Forecasts of Major Spending Items

General Fund Financial Plan, FY 2006 – 2012



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At least 3/4 of the Budget Is Not Available to Address a General Fund Shortfall

