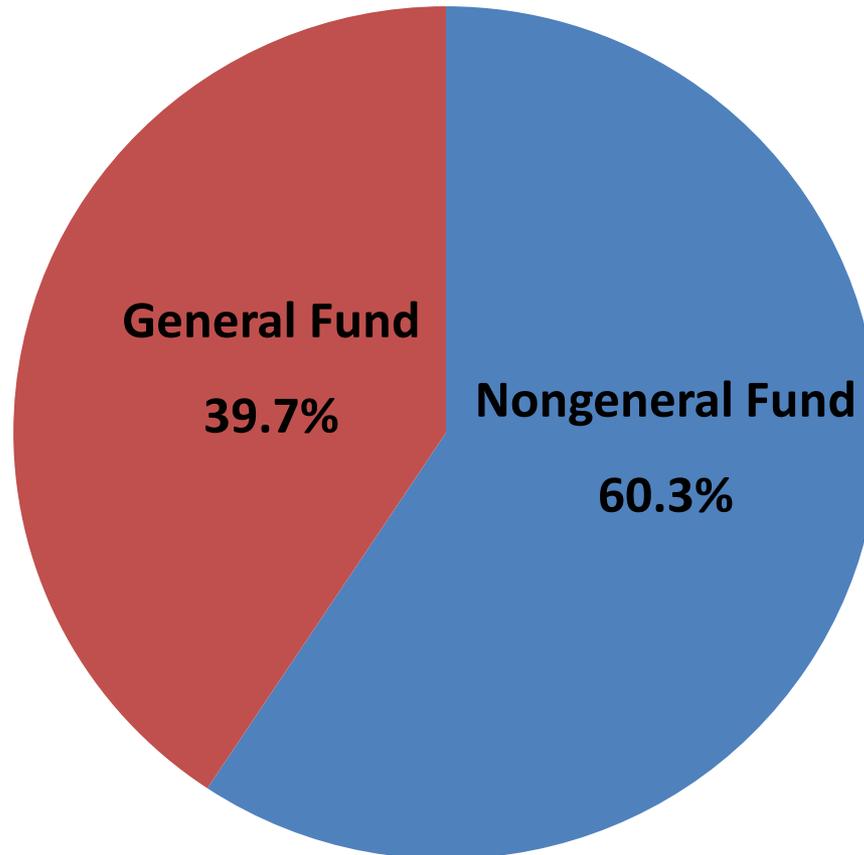


Virginia's Revenue Trends and Future Fiscal Issues

Richard D. Brown
Secretary of Finance
April 25, 2012



2010-2012 Operating Budget General Fund vs. Nongeneral Fund

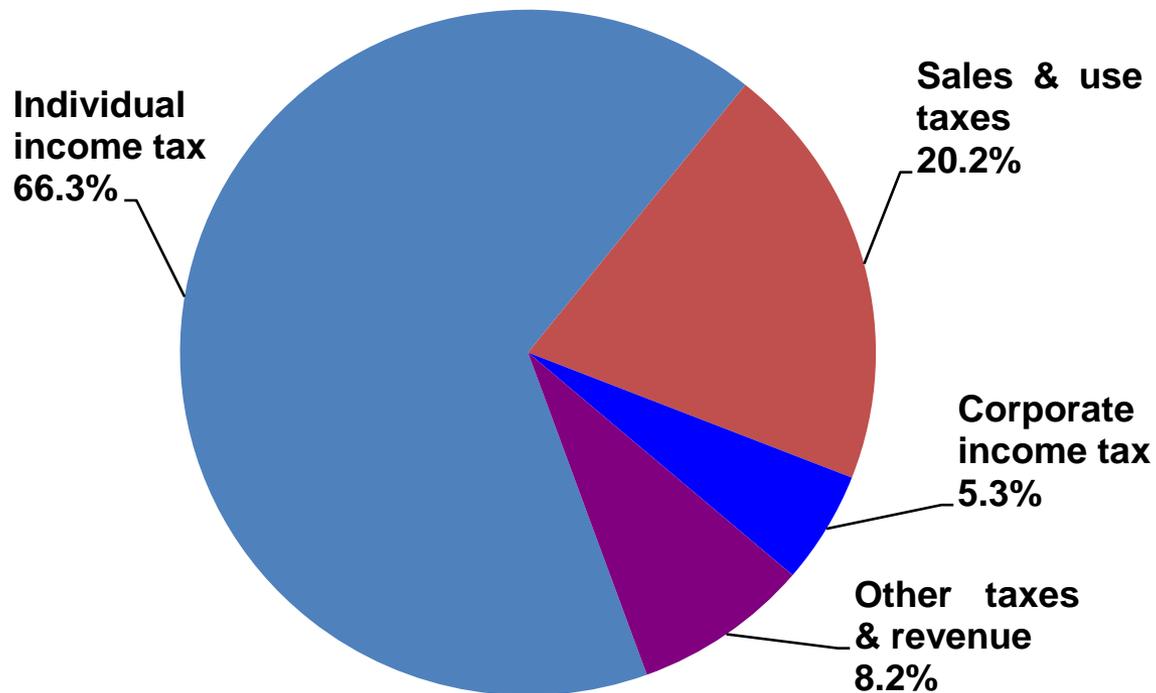


Data from 2011 Session House Bill 1500 Enrolled

General Fund Revenues for 2010-2012

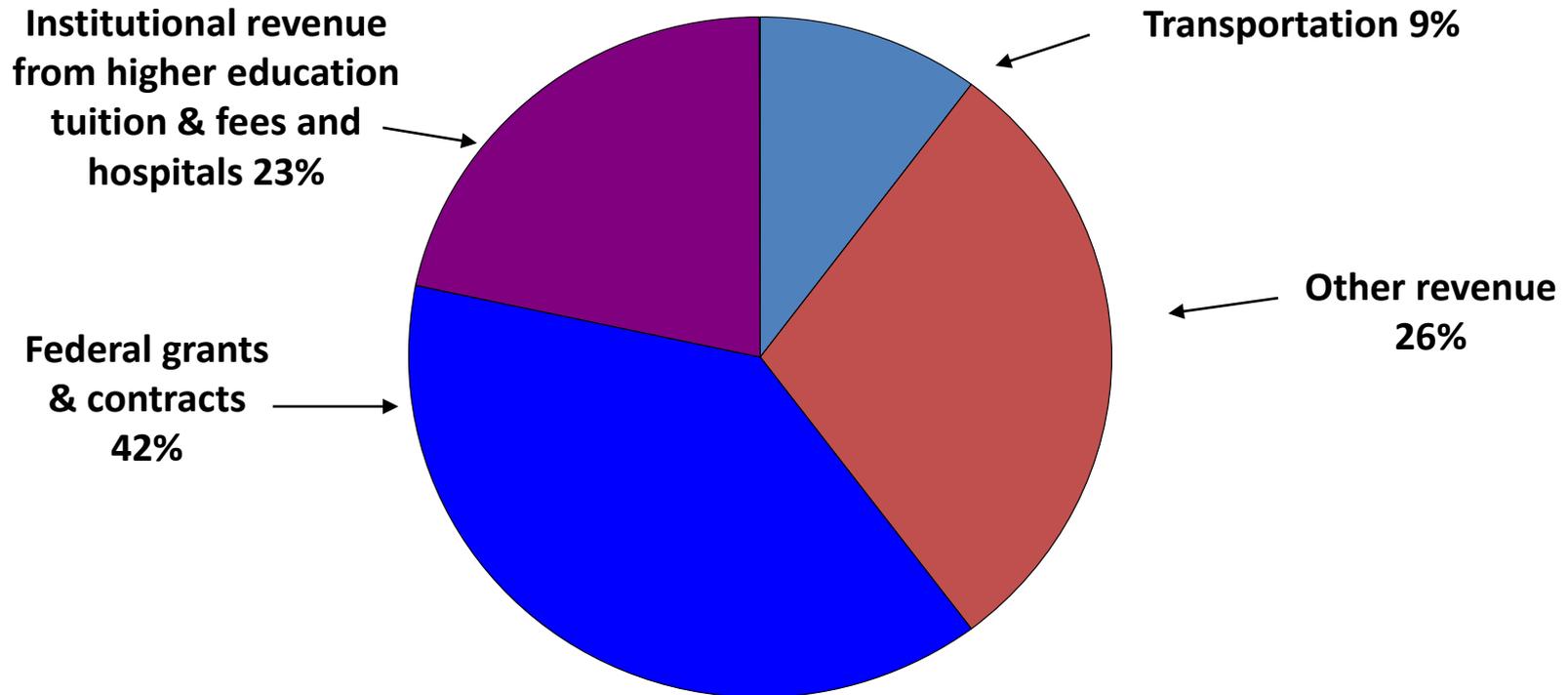
Economic trends are important because employment, wage gains, and consumer spending account for about 92 percent of all general fund revenues.

2010-2012 general fund revenues = \$30.3 billion



Nongeneral Fund Revenues for 2010-2012

Federal grants account for over 40% of all nongeneral funds revenue



2010-2012 nongeneral fund revenues = \$47.4 billion

“Transportation” includes fuel tax, sales tax, motor vehicle sales tax, and motor vehicle licenses. Data does not include balances or bond proceeds. Data from 2011 Session HB 1500 Enrolled.

The January Economic Outlook Is Virtually Unchanged From The Outlook Underpinning the December Revenue Forecast...

- The January economic outlook maintains the theme from the November forecast -- modest growth in the major economic indicators.

Key U.S. and Virginia Economic Indicators
November 2011 and January 2012 Forecasts

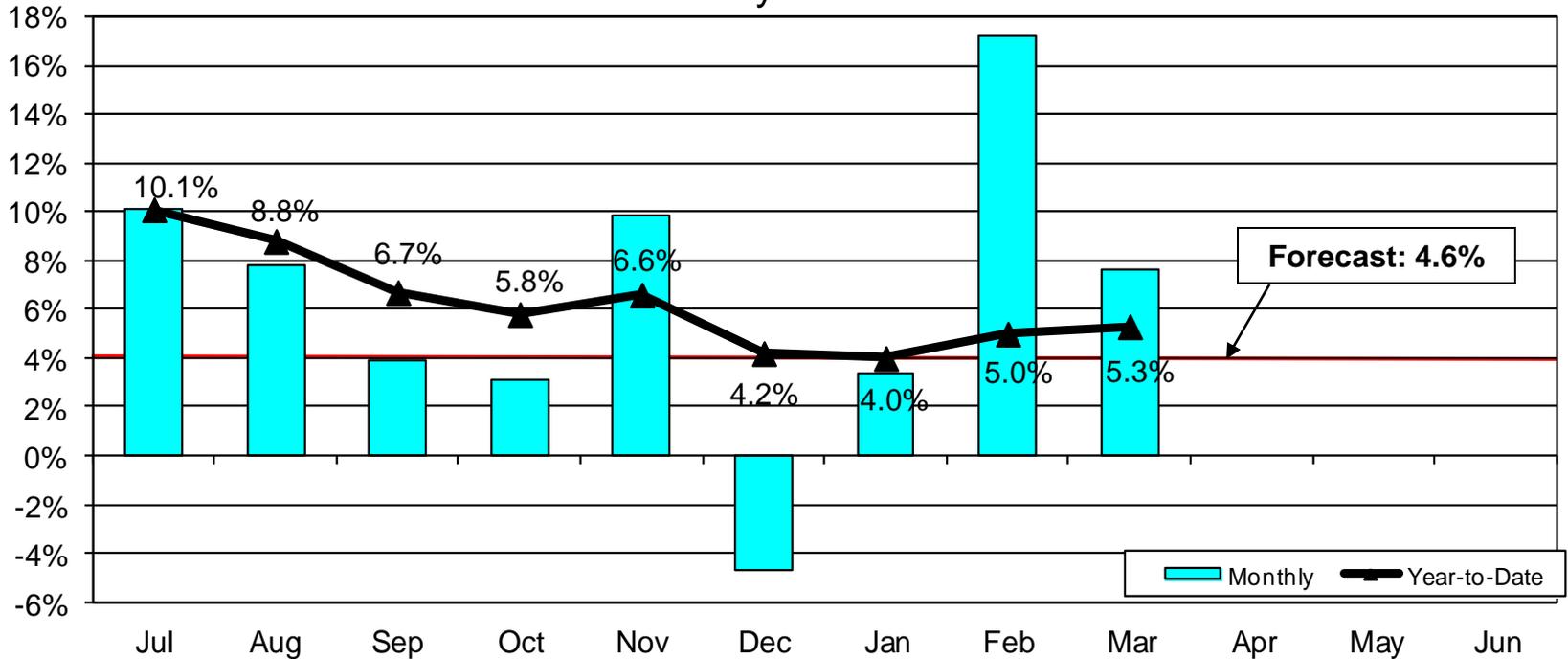
U.S.	Fiscal Year				Virginia	Fiscal Year			
	11	12	13	14		11	12	13	14
Real GDP					Employment				
Nov '11 Introduced	2.6	1.7	1.8	3.2	Nov '11 Introduced	1.2	1.2	1.0	1.8
Jan '12 Standard		1.8	1.9	3.0	Jan '12 Standard		1.0	1.3	1.8
Consumer Spending					Personal Income				
Nov '11 Introduced	2.5	2.0	2.1	1.8	Nov '11 Introduced	5.0	3.9	3.5	4.0
Jan '12 Standard		2.0	2.3	1.8	Jan '12 Standard		3.7	3.6	4.0
Employment					Wages & Salaries				
Nov '11 Introduced	0.6	0.9	1.0	1.8	Nov '11 Introduced	3.5	3.3	3.7	4.2
Jan '12 Standard		1.2	1.4	1.8	Jan '12 Standard		3.7	3.9	4.2
Personal Income					Average Wage				
Nov '11 Introduced	5.4	3.6	3.4	4.3	Nov '11 Introduced	2.3	2.1	2.6	2.4
Jan '12 Standard		3.5	3.8	4.3	Jan '12 Standard		2.7	2.6	2.4

- There is no basis for economic-based revisions to the revenue forecast.
- Of note, Global Insight has lowered their probability of a double-dip recession from 40 percent to 25 percent.

Recap of the December Introduced Forecast...

- The December revenue forecast was based on the November 2011 Global Insight standard forecast.
 - Consistent with the economic outlook of a “half-speed” recovery, revenues were expected to increase at about half the historical post-recession rate.
- For fiscal year 2012, total general fund revenues and transfers were increased by \$83.3 million.
 - Revenues are expected to increase 4.6 percent compared to the official forecast of 3.7 percent.
 - This includes \$39.6 million in revenue added post-GACRE.
- Total revenues are expected to increase 3.3 percent in fiscal year 2013 and 4.5 percent in fiscal year 2014.
 - Slightly behind the December 2010 forecast of 3.8 percent and 4.7 percent for those two years.

Growth in Total General Fund Revenue Collections FY12 Monthly and Year-to-Date



Monthly Growth: 10.1% 7.8% 3.9% 3.1% 9.8% -4.7% 3.4% 17.2% 7.6%

- On a year-to-date basis, total revenues increased 5.3 percent through March, ahead of the annual forecast of 4.6 percent growth.
 - Adjusting for the accelerated sales tax (AST) program, total revenues grew 4.9 percent, ahead of the economic-base forecast of 4.7 percent growth.

How Are We Doing?

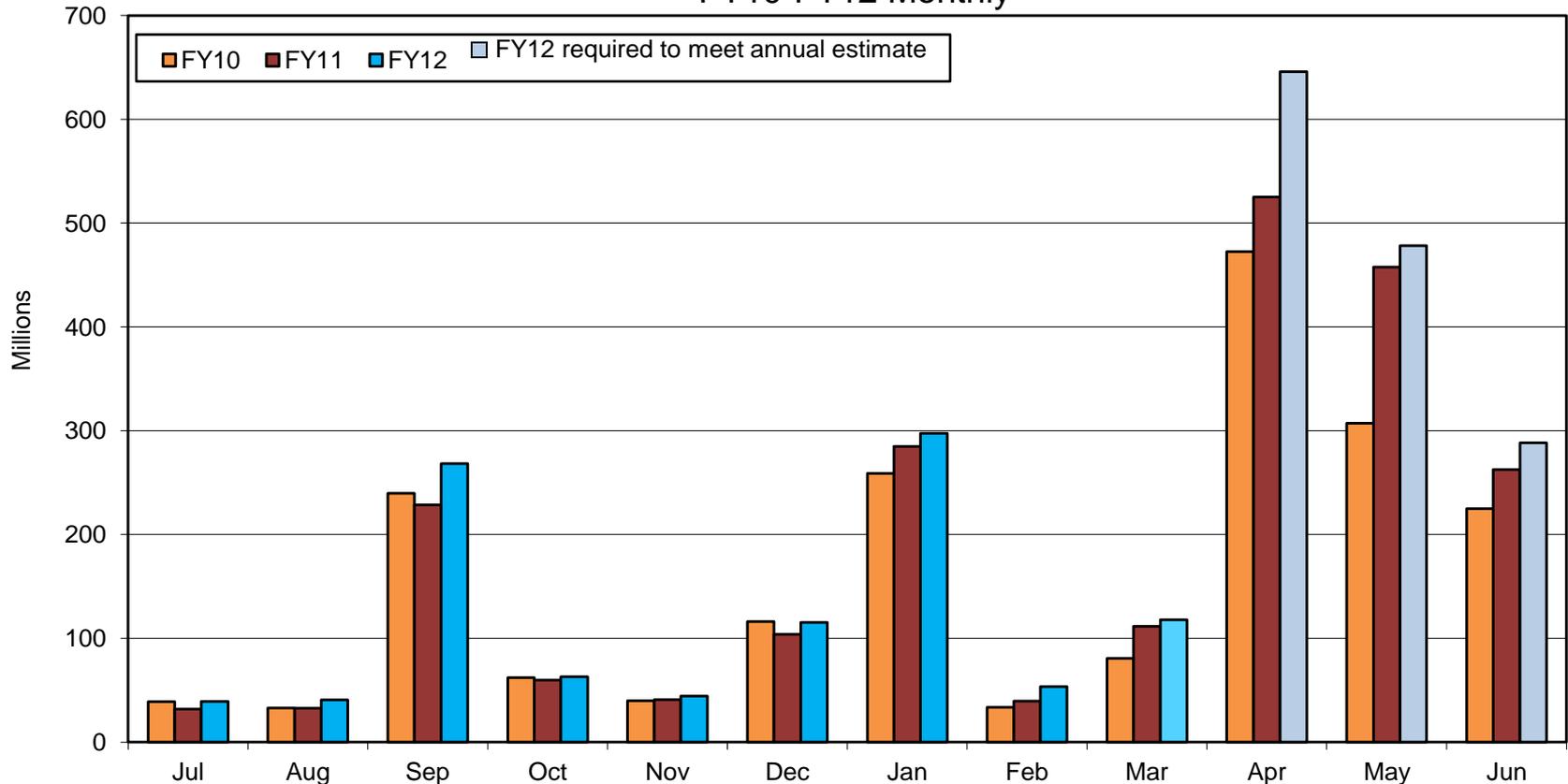
General Fund Revenue Collections - March 2012

\$ in Millions

	Year-to-date thru March 2012				FY2012 Official Estimate
	FY2012 Estimate	FY2012	FY2011	% Change	
Individual Income Tax:					
Withholding	\$10,006.0	\$ 7,459.6	\$ 7,217.5	+3.4%	+3.8%
Nonwithholding	2,452.2	1,039.6	933.2	+11.4%	+12.6%
(Refunds)	(1,925.2)	(1,100.6)	(1,172.2)	-6.1%	+3.0%
Net Individual Income Tax	\$10,533.0	\$ 7,398.6	\$ 6,978.5	+6.0%	+5.9%
Sales and Use Tax	\$ 3,066.0	\$ 2,160.5	\$ 2,043.9	+5.7%	+1.8%
Corporate Income	827.8	488.1	465.9	+4.8%	+0.7%
Wills, Suits, Deeds, Contracts	322.9	232.3	216.7	+7.2%	+10.8%
Insurance Premiums	287.3	41.2	71.1	-42.1%	+2.0%
Interest Income	82.0	66.4	71.2	-6.7%	+1.1%
All Other	607.6	383.0	380.9	+0.6%	+0.1%
Total	\$15,726.6	\$10,770.1	\$ 10,228.2	+5.3%	+4.6%

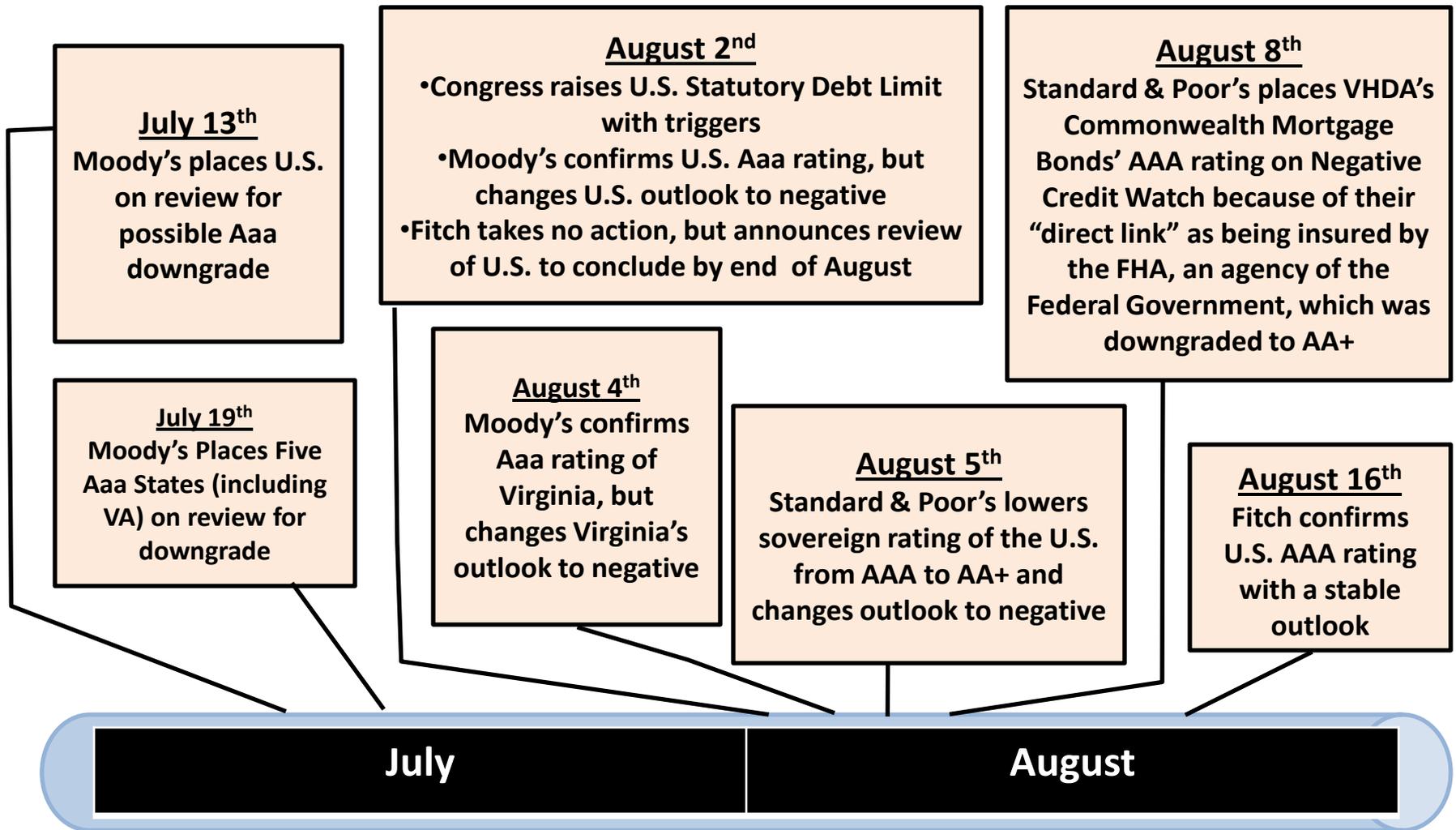
Nonwithholding Tax Collections

FY10-FY12 Monthly



- Year-to-date, collections grew 11.4 percent from the same period last year, behind the annual estimate of 12.6 percent growth.
- The majority of the remaining collections in this source will occur in April and May, with both final payments for tax year 2011 and estimated payments for the current year due May 1.

Working to Maintain our AAA Bond Rating



Note: Within 90 days, Moody's will conclude its review of Virginia and determine whether our outlook remains negative or returns to stable.

Through the 3rd Quarter of FY12, Withholding Collections for Finance, Manufacturing and Small Businesses Have Been Strong, But Have Fallen for Federal Contractors...

Withholding Tax Collections Through the 3rd Quarter of the Fiscal Year

Industry (% of Total Amount)	# of firms FY12	Millions of Dollars			Percent Change	
		FY10	FY11	FY12	11 over 10	12 over 11
Public Administration (18%)	91	\$1,257.2	\$1,322.0	\$1,349.9	5.1%	2.1%
Education/Health (8%)	238	\$555.0	\$565.1	\$563.7	1.8%	-0.2%
Federal Contractors (5%)	183	\$366.7	\$380.4	\$372.7	3.7%	-2.0%
Financial (3%)	129	\$173.8	\$196.5	\$207.1	13.0%	5.4%
Professional/Business (2%)	500	\$157.2	\$182.4	\$183.7	16.0%	0.7%
Investment (1%)	142	\$93.3	\$101.9	\$103.6	9.3%	1.7%
Manufacturing (1%)	156	\$91.4	\$92.3	\$98.3	1.0%	6.5%
Transportation (1%)	40	\$74.1	\$77.1	\$77.6	4.0%	0.5%
Energy (1%)	46	\$71.5	\$77.8	\$74.3	8.8%	-4.6%
All Other (5%)	681	\$351.6	\$372.6	\$358.8	6.0%	-3.7%
Total Large Payers (45%)	2,206	\$3,191.8	\$3,368.0	\$3,389.6	5.5%	0.6%
Total DOA Withholding	267,952	\$6,872.3	\$7,227.2	\$7,484.9	5.2%	3.6%
Total Small Payers (55%)	265,746	\$3,680.5	\$3,859.1	\$4,095.3	4.9%	6.1%

* Number in parentheses represents percent of total DOA withholding through March 2012.

Strategy for Addressing Bond Ratings (Future Borrowings)

- **#1 - Enhance Liquidity:**

- Revenue Stabilization Fund (RSF) will grow to \$440 million by end of FY2013 and could double in size, \$600 million by end of FY2014 with continued revenue growth. The RSF can only be used to offset a shortfall in revenue from what is anticipated in an emailed budget.
- Create Federal Action Contingency Fund (FACT) is a cash reserve that can be used to offset a variety of negative impacts on Virginia related to future federal actions which cannot be addressed by RSF.
 - Replace certain losses in direct federal grants,
 - Use for incentives to retain or consolidate federal facilities in Virginia. Like BRAC approach.
 - Address federal tax policy changes from conformity,
 - Help businesses impacted by federal procurement or defense contracts as they change to other customers

- **#2 – Diversify Economy**

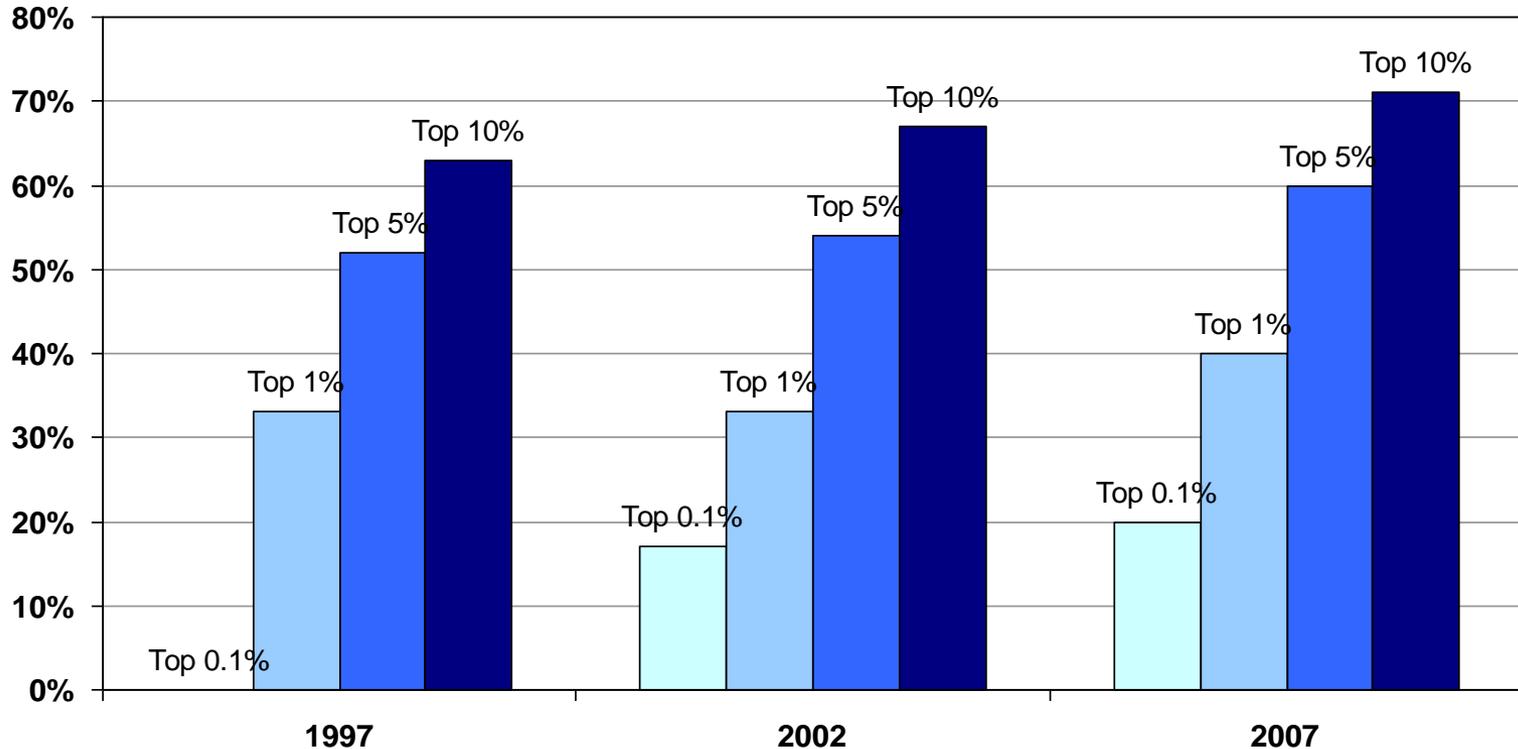
- Long-range strategy given immediate attention.
- Executive order to direct economic development personnel to fully develop strategy.

Growth in Total General Fund Tax Revenues
Fiscal Year 1961 - Fiscal Year 2011
(Nominal - Actual Dollars)

<u>FY</u>	<u>Total Revenues</u>	<u>Growth</u>	<u>FY</u>	<u>Total Revenues</u>	<u>Growth</u>
61	230,998,887	-	86	4,131,778,000	9.0%
62	242,144,567	4.8%	87	4,590,434,000	11.1%
63	286,304,265	18.2%	88	5,054,382,000	10.1%
64	298,033,919	4.1%	89	5,478,912,000	8.4%
65	323,213,412	8.4%	90	5,494,884,000	0.3%
66	365,129,776	13.0%	91	5,471,879,000	-0.4%
67	414,755,644	13.6%	92	5,623,213,000	2.8%
68	533,597,744	28.7%	93	6,133,637,000	9.1%
69	706,254,374	32.4%	94	6,503,368,000	6.0%
70	743,721,322	5.3%	95	6,881,145,000	5.8%
71	807,954,651	8.6%	96	7,356,110,000	6.9%
72	922,653,686	14.2%	97	7,949,327,000	8.1%
73	1,054,469,443	14.3%	98	8,773,520,000	10.4%
74	1,168,562,871	10.8%	99	9,702,747,000	10.6%
75	1,303,178,893	11.5%	00	10,788,482,000	11.2%
76	1,428,421,157	9.6%	01	11,105,275,000	2.9%
77	1,636,301,819	14.6%	02	10,678,954,000	-3.8%
78	1,923,085,084	17.5%	03	10,867,149,000	1.8%
79	2,115,211,522	10.0%	04	11,917,867,000	9.7%
80	2,344,928,934	10.9%	05	13,687,252,000	14.8%
81	2,579,663,941	10.0%	06	14,834,298,000	8.4%
82	2,796,458,741	8.4%	07	15,565,827,000	4.9%
83	2,975,687,935	6.4%	08	15,766,951,000	1.3%
84	3,397,710,261	14.2%	09	14,315,060,000	-9.2%
85	3,790,816,000	11.6%	10	14,219,477,000	-0.7%
			11	15,040,200,000	5.8%

NOTE : Total Revenues exclude transfers.

High-End Filers Determine Personal Income Tax Revenues



- In 2007, the top 0.1% paid 20%.
- In 2007, the top 1% of filers paid 40% of total revenues

– Up from 25% in 1991

- The top 5% paid 60%
- The top 10% paid 71%

Source: IRS data and Tax Foundation

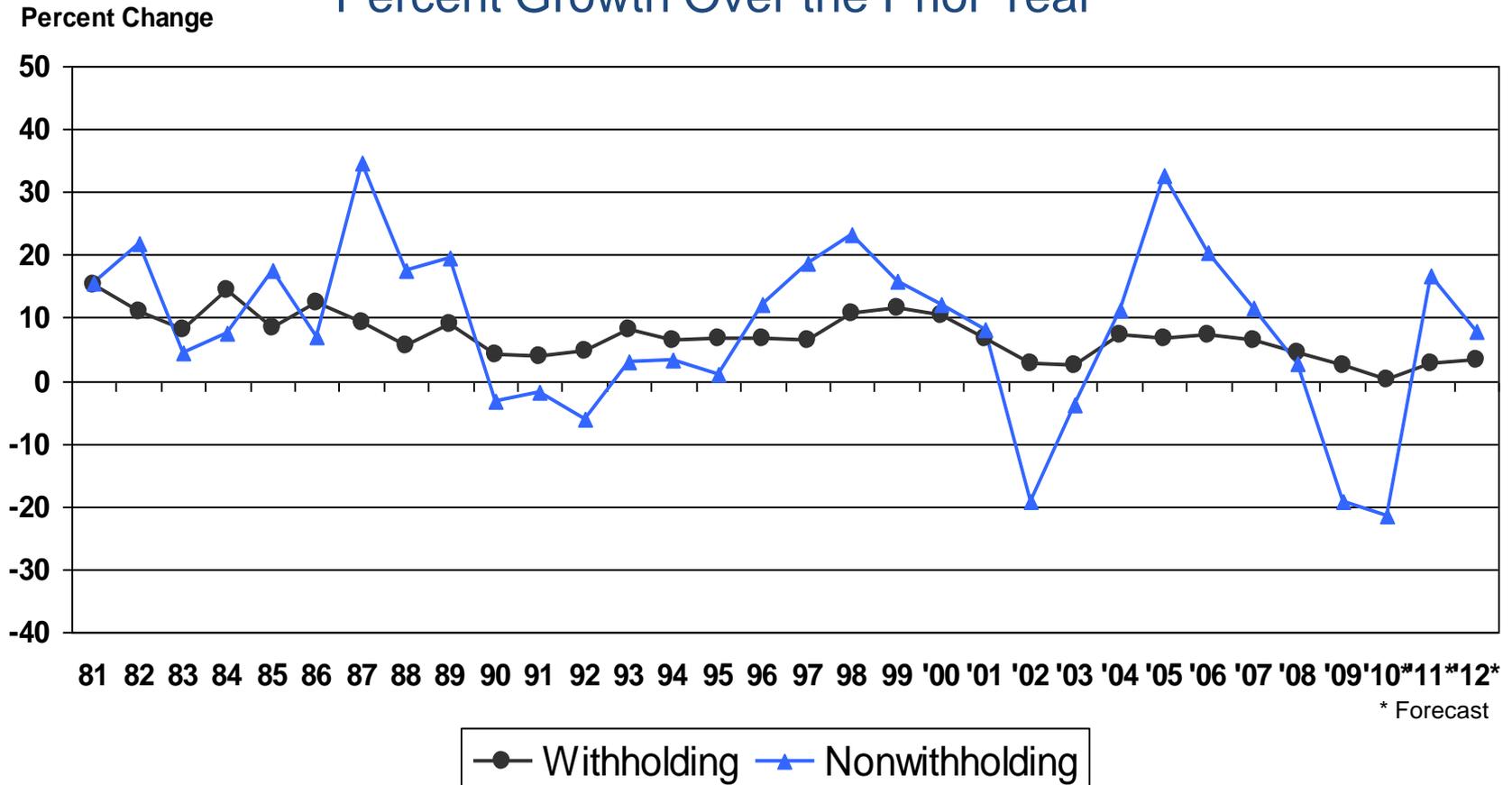
General Fund Revenue

\$ in Millions

<u>Fiscal Year</u>	<u>Revenue Growth</u>	<u>Total Revenue</u>	<u>Nonwithholding</u>	<u>% of Total</u>
2000	10.5%	\$10,721.5	\$1,669.7	15.57%
2001	2.9	11,105.3	1,806.8	16.27%
2002	(3.8)	10,679.0	1,459.5	13.67%
2003	1.8	10,867.1	1,402.7	12.91%
2004	9.7	11,917.9	1,562.8	13.11%
2005	14.8	13,687.3	2,073.5	15.15%
2006	8.4	14,834.3	2,530.2	17.06%
2007	4.9	15,565.8	2,782.0	17.87%
2008	1.3	15,767.0	2,861.2	18.15%
2009	(9.2)	14,315.1	2,310.4	16.14%
2010	(0.7)	14,219.5	1,906.8	13.41%
2011	5.8	15,040.2	2,178.6	14.49%

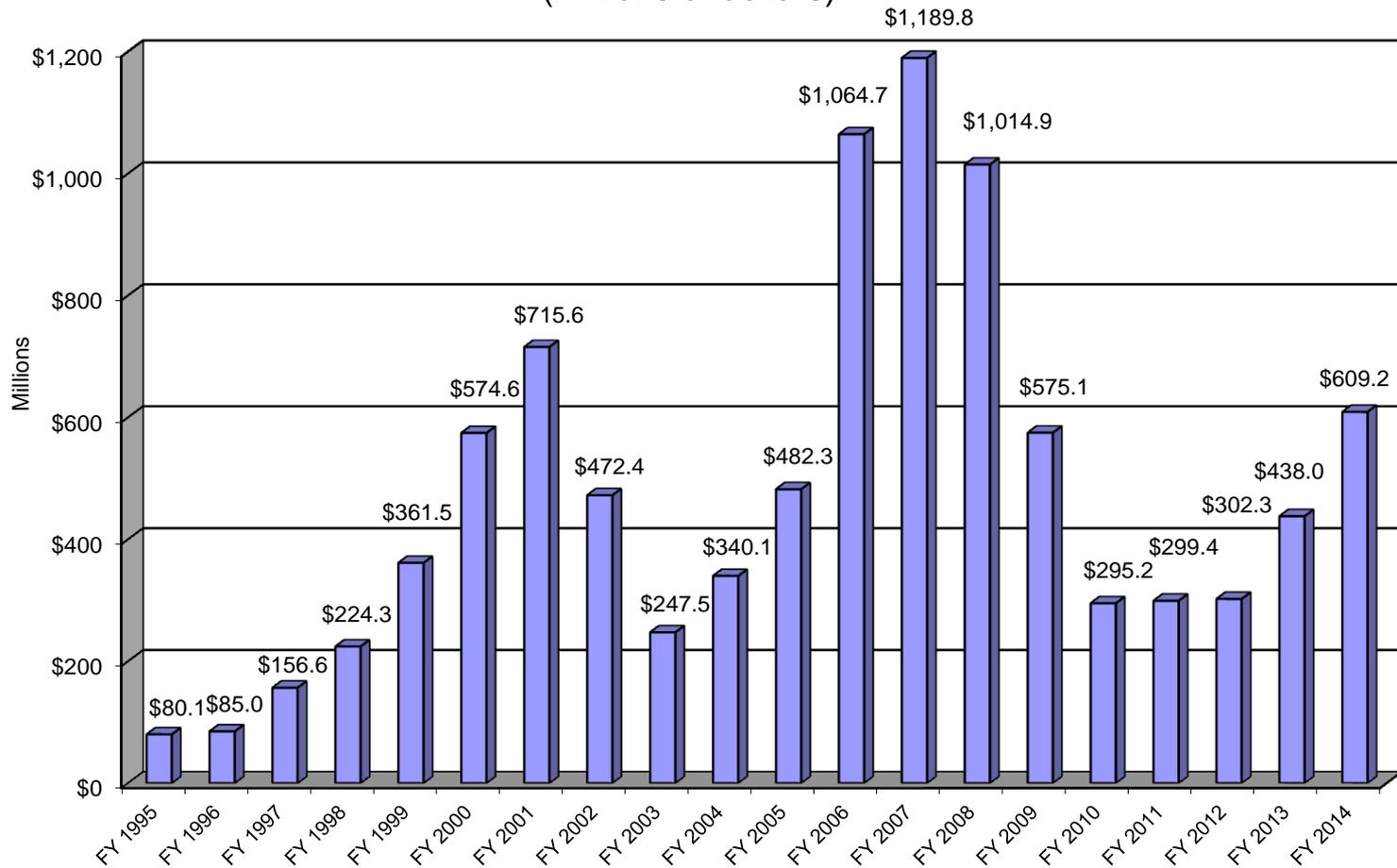
Trends in Withholding Compared to Individual Nonwithholding

Percent Growth Over the Prior Year



Mandatory Deposits into the Revenue Stabilization Fund Will Double the Size of the Fund by the End of Fiscal Year 2014...

Revenue Stabilization Fund -- June 30 Balance
 FY 1995-2011 Actual and FY 2012-2014 Forecast
 (millions of dollars)



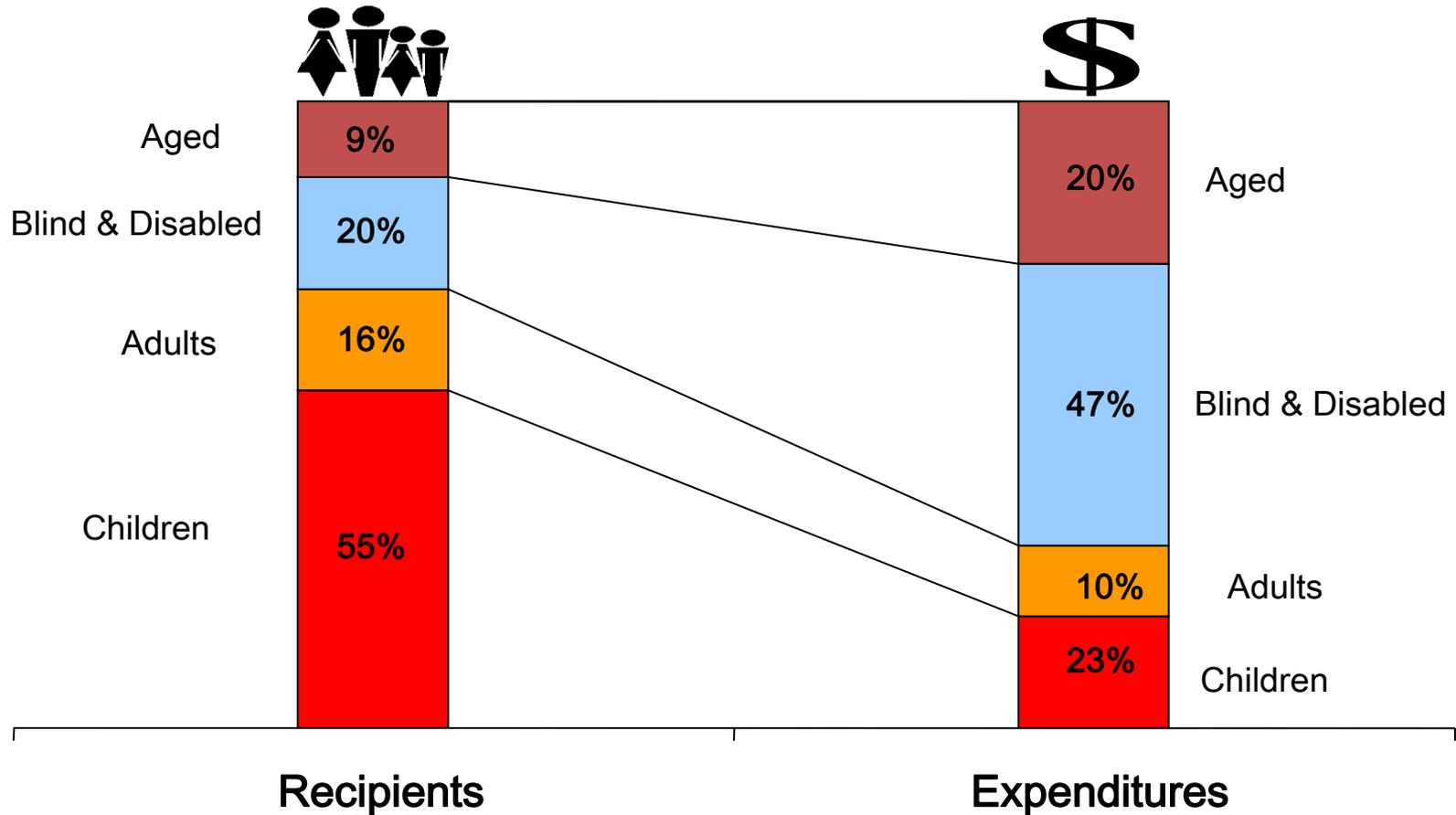
- Mandatory deposits of \$132.7 million in fiscal year 2013 and \$166.4 million in fiscal year 2014 are required.

Federal Health Care Reform Mandates

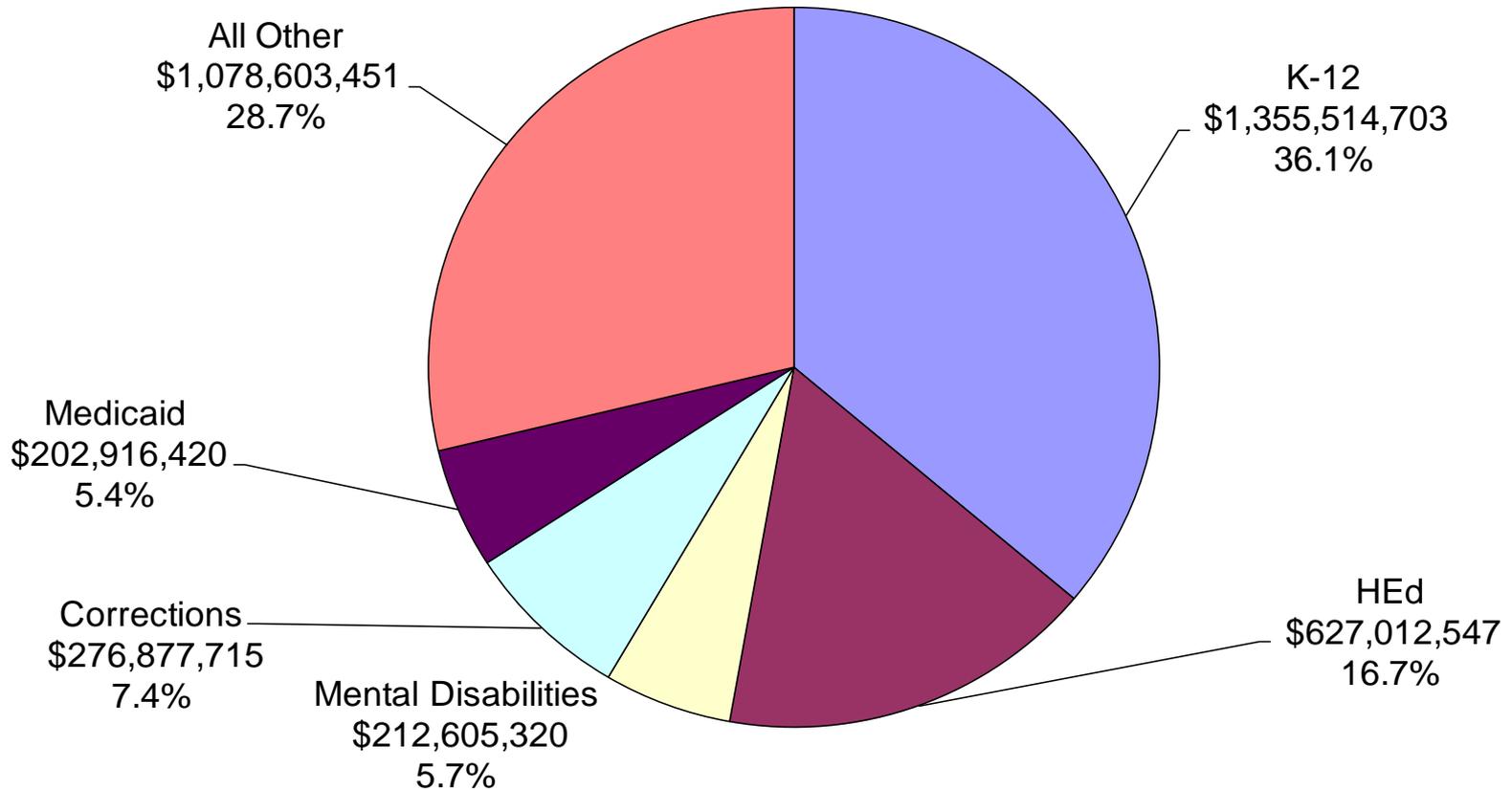
- The Federal Health Care Reform Program is expected to cost Virginia in excess of \$2.0 billion by 2022.
- Number of New Medicaid recipients could rise by as much as 425,000 Virginians
- Moreover, the Federal Health Care Reform Program contains a permanent “Maintenance of Eligibility (MOE)” provision for basic Medicaid services and the Children’s Health Insurance Program (CHIP).

Budget Driver: Medicaid

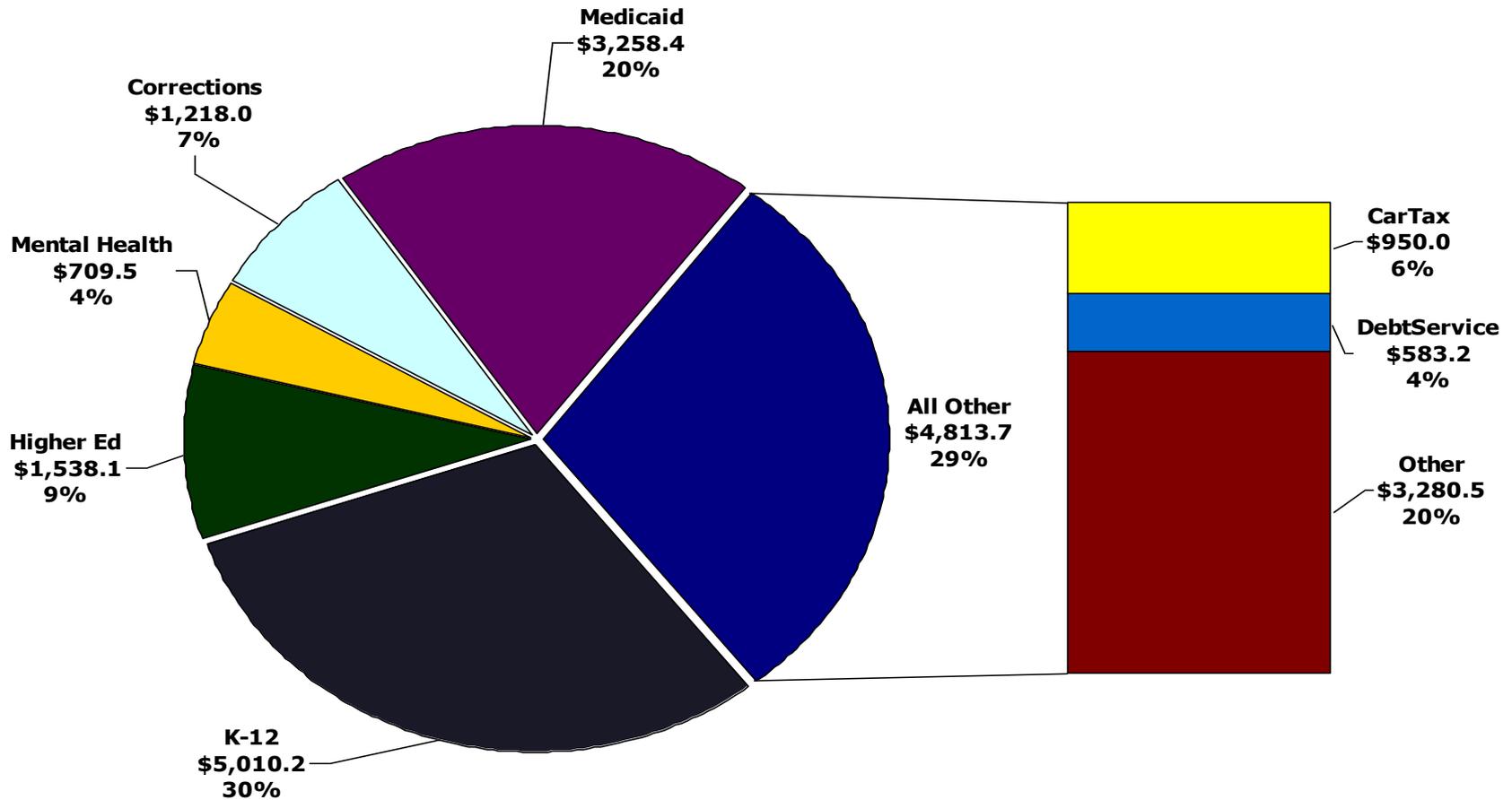
Medicaid Enrollment & Expenditures, FY 2008



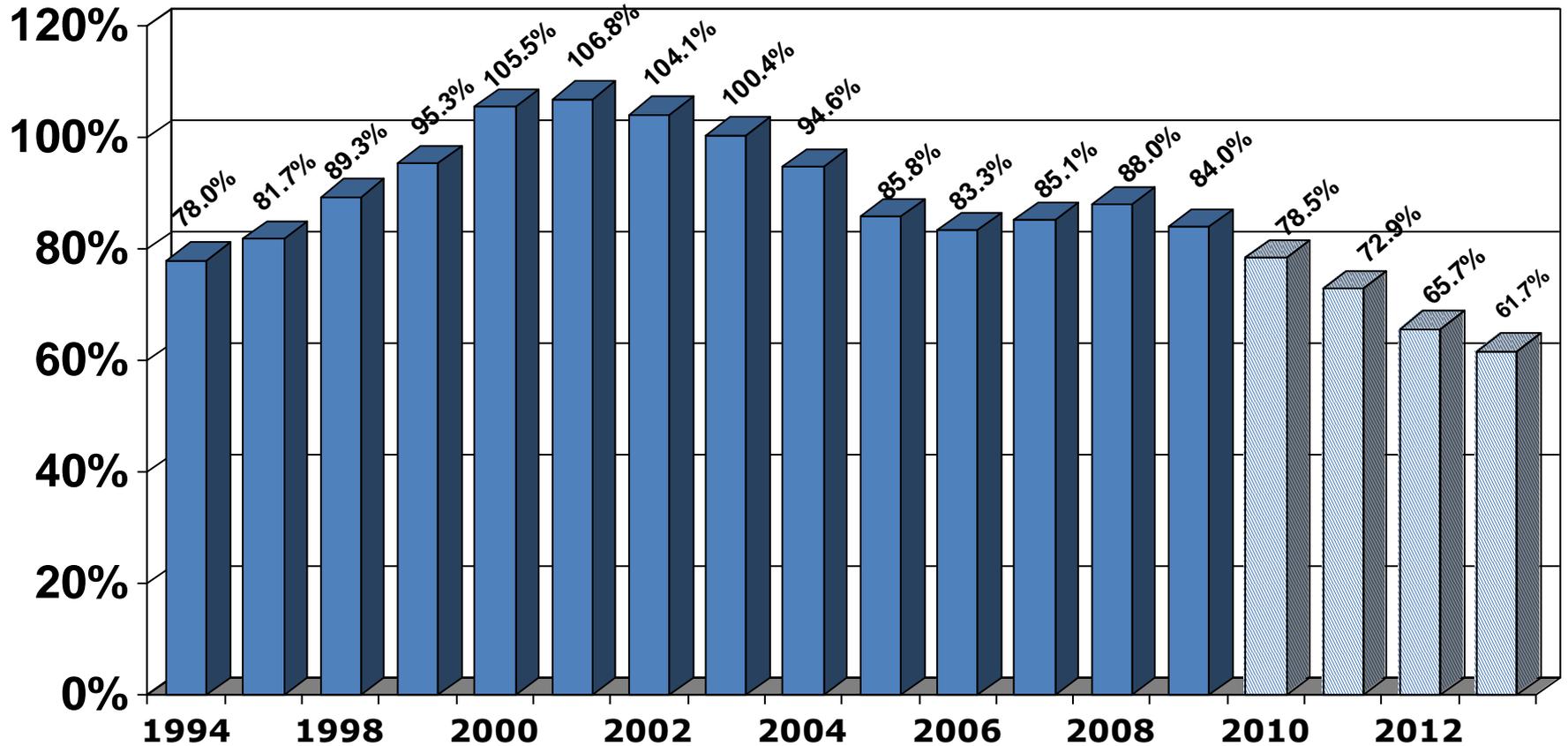
Budget Drivers FY 1985



Five Budget Drivers Make Up 70 Percent of the FY 2012 General Fund Budget



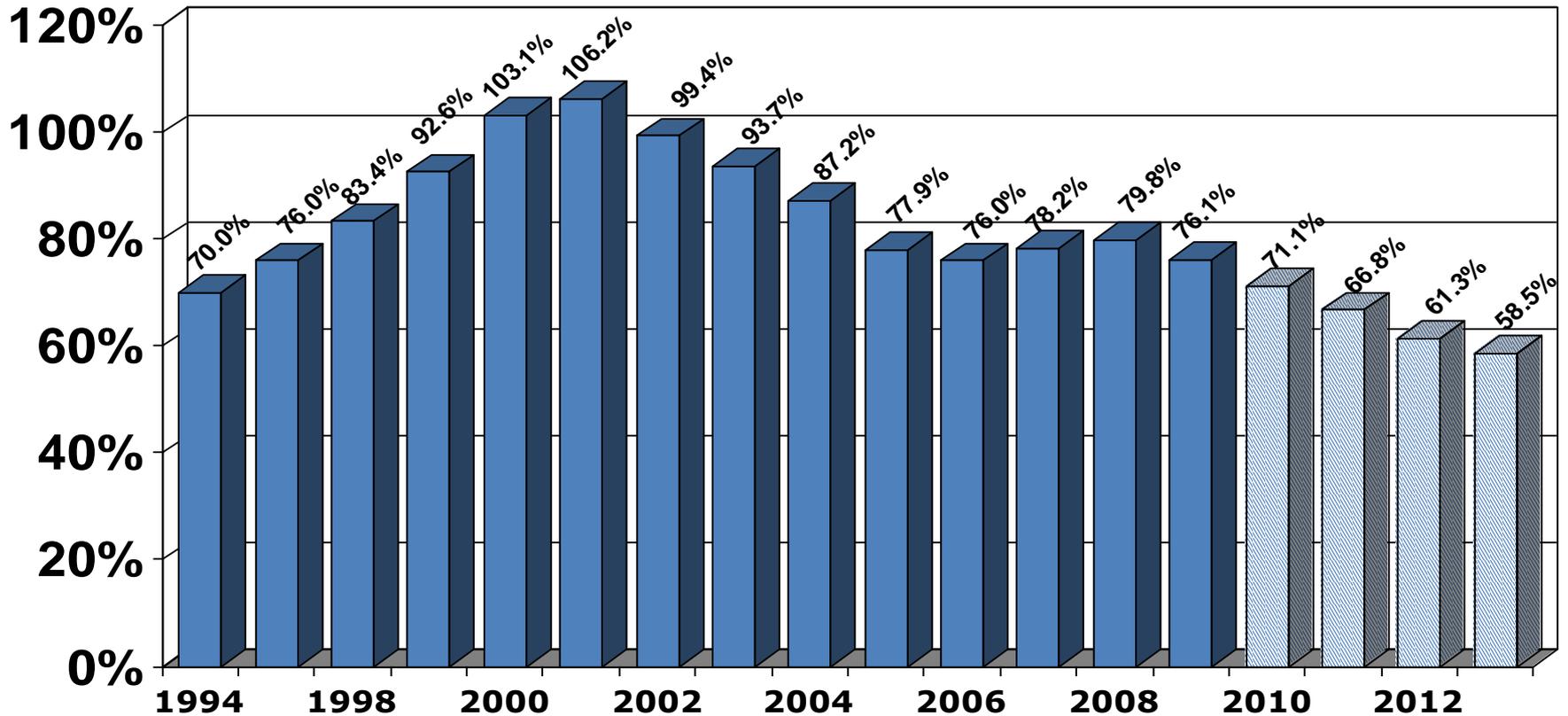
VRS Funded Status: State Employees



Assumptions:

- FY 2009 investment return is -21.1%.
- All projected years investment return is 7.5% and 2.5% inflation rate.
- Employer contribution rates for fiscal year 2009 is fixed at 6.23% and for 2010 at 6.26% for state employees.
- Actual value of assets subject to 5-year smoothing with no corridor.

VRS Funded Status: Teachers



Assumptions:

- FY 2009 investment return is -21.1%
- All projected years investment return is 7.5% and 2.5% inflation rate with 20-year amortization period.
- Employer contribution rates for FY 2009 and FY 2010 are fixed at 8.81%
- Actual value of assets subject to 5-year smoothing with no corridor.

For more
information on Virginia's
budget, visit:
www.DPB.Virginia.gov
www.Finance.Virginia.gov

Thank You