The Revenue Outlook for the Highway Maintenance and Operating Fund

A Presentation to the Commonwealth Transportation Board

September 18, 2008

The Virginia Revenue Estimating Process…

Section 2.2-1503 of the Code of Virginia requires:

- The Governor to submit to the General Assembly by December 15 a six-year revenue forecast.

- The revenue forecast shall be based on:
  - Forecasts of economic activity in the Commonwealth;
  - Review by an Advisory Board of Economists with respect to economic assumptions and technical econometric methodology;
  - Review by an Advisory Council of Revenue Estimates with respect to economic assumptions and the general economic climate of the Commonwealth;
  - Any such other advisory bodies as the Governor may desire (economic advisory council).
    - Governor Kaine has called two special meetings of critical industry representatives (Housing Sector and Consumer Spending/Automotive Sectors).

Functions of the Advisory Boards and Others…

- TAX develops and presents the Virginia economic outlook to the Governor's Advisory Board of Economists (GABE).
  - The board includes 12 members:
    - 4 from private industry -- Norfolk Southern, FRB of Richmond
    - 8 from state universities -- William & Mary, George Mason, VCU
  - The board recommends a standard and alternative economic forecast.

- TAX develops and presents a revenue forecast for each economic scenario to the Governor's Advisory Council on Revenue Estimates (GACRE).
  - The board includes 16 members from private industry -- Federal Reserve Bank of Richmond, Dominion Resources, Bank of America, Verizon
  - The Governor and General Assembly leaders are also board members.
  - Members evaluate the validity of the forecasts and provide insight into their particular businesses and industries.

The August standard forecast for Virginia has been revised downward substantially from the January economic outlook…

- The statewide slowdown in housing, weaker trends in employment and income data, and the updated U.S. macroeconomic outlook point to a stagnation of the Virginia economy in fiscal year 2009.

  - Employment is expected to decline 0.1 percent in fiscal year 2009, in line with the forecast of a mild national recession.
    - The construction and financial activities sectors are expected to decline 3.0 percent in fiscal year 2009.
    - Gains in the service sector are expected to continue.

  - In fiscal year 2010, total employment is expected to increase 0.8 percent, indicative of a sluggish recovery.
    - The primary drivers of the below-trend growth are continued job losses in construction and sub-2.0 percent growth in professional and business services.

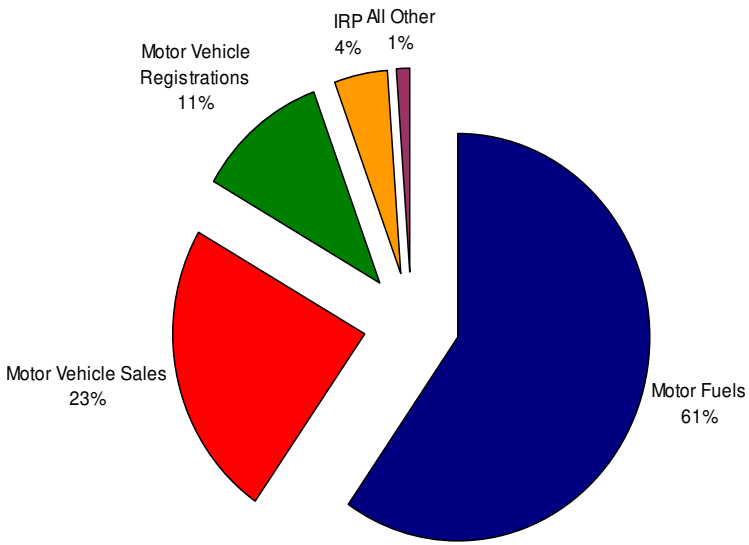
Summary of FY08 Commonwealth Transportation Fund Revenue Collections

	Fiscal Year 2008			
	Forecast	Actual	$ Variance	% Growth
Motor Fuels Tax	$ 883.5	$ 851.2	$ (32.3)	0.1 %
Motor Vehicle Sales Tax	568.3	541.7	(26.6)	(9.3)
Motor Vehicle License Fee	253.1	242.1	(11.0)	42.9
International Registration Fee	64.5	74.1	9.6	37.2
Retail Sales Tax	517.8	524.9	7.1	1.5
Interest Earnings	43.5	62.1	18.6	15.2
Miscellaneous	77.9	78.1	0.2	7.9
Total	**$ 2,408.6**	**$ 2,374.2**	**$ (34.4)**	**2.6 %**

- Adjusted for the additional revenues resulting from House Bill 3202 (2007), actual FY08 CTF collections were $47.5 million less than FY07 collections.
  - Increased Registration Fees $87.2 million
  - 1.5 Cent Increase in Excise Tax on Diesel $17.5 million
  - Increase Weight Limit Violation Fee $2.1 million

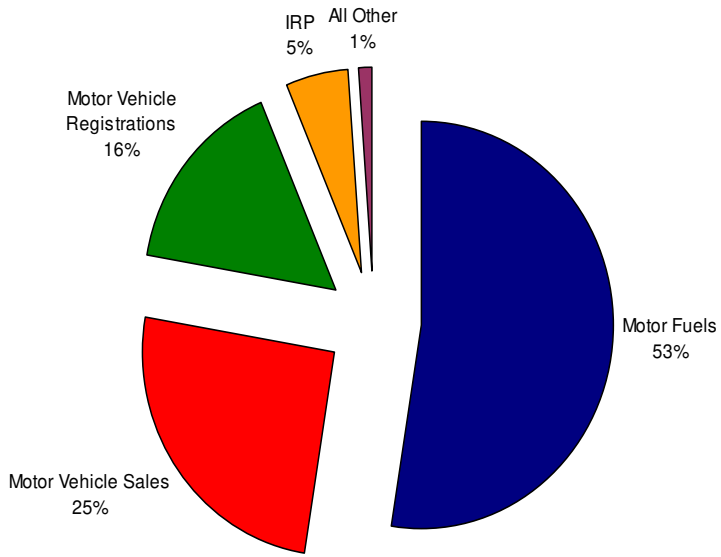
Components of Highway Maintenance and Operating Fund Revenues…

Components of HMOF Revenues – FY98
Percent Share of Total



$1,078.8 million

Components of HMOF Revenues – FY08
Percent Share of Total



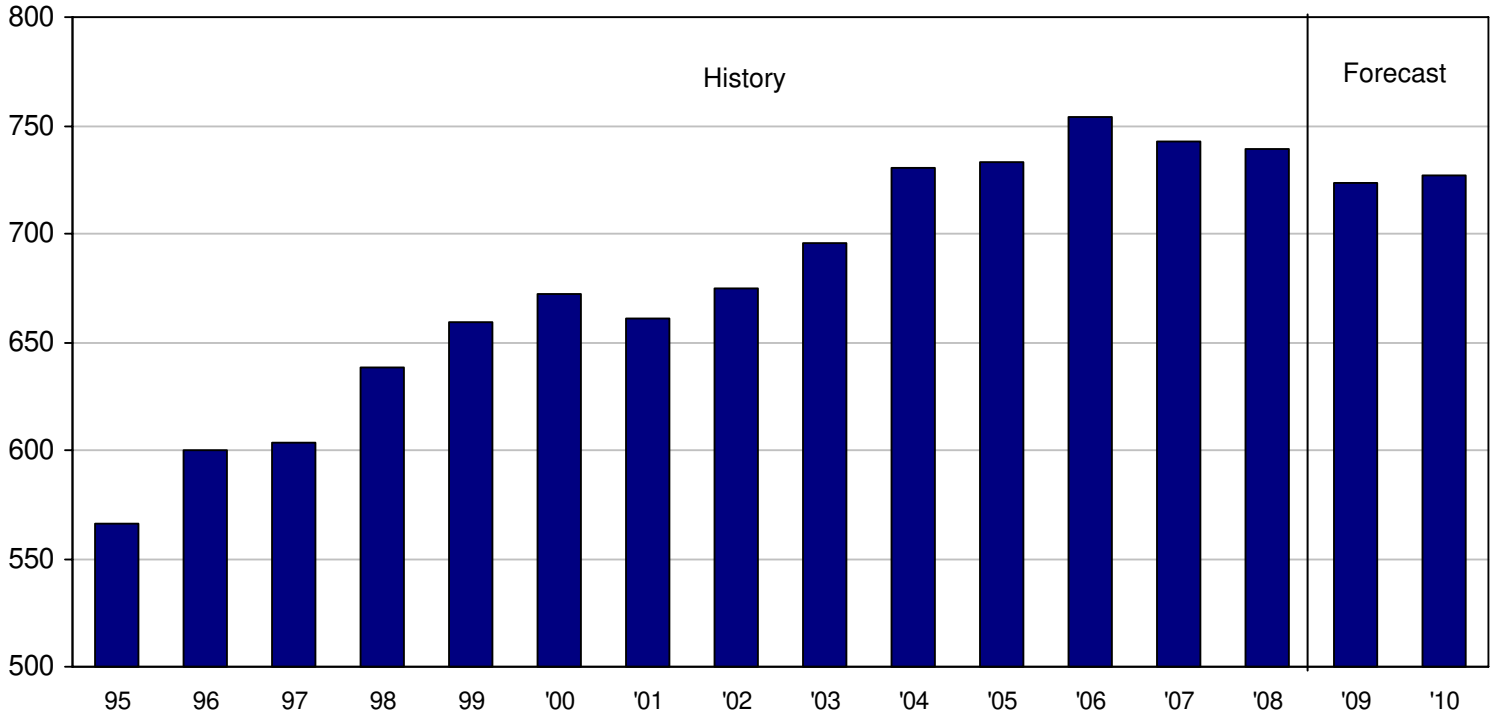
$1,405.5 million

Virginia's motor fuel demand is affected by many different parameters, including…

- Population growth
  - Since 2000, Virginia has been on a trend toward slower growth.
- Economic growth
  - The demand for motor fuels, particularly diesel, is driven by economic activity.
  - The Commonwealth is expected to experience a 2-quarter recession in FY09 and a sluggish recovery in FY10.
- Fuel prices
  - From July 2004 to July 2008, gasoline prices have increased 103%.
- Vehicle mix and driving habits
  - There has been a significant movement to smaller vehicles over the past 3 years that is expected to accelerate.

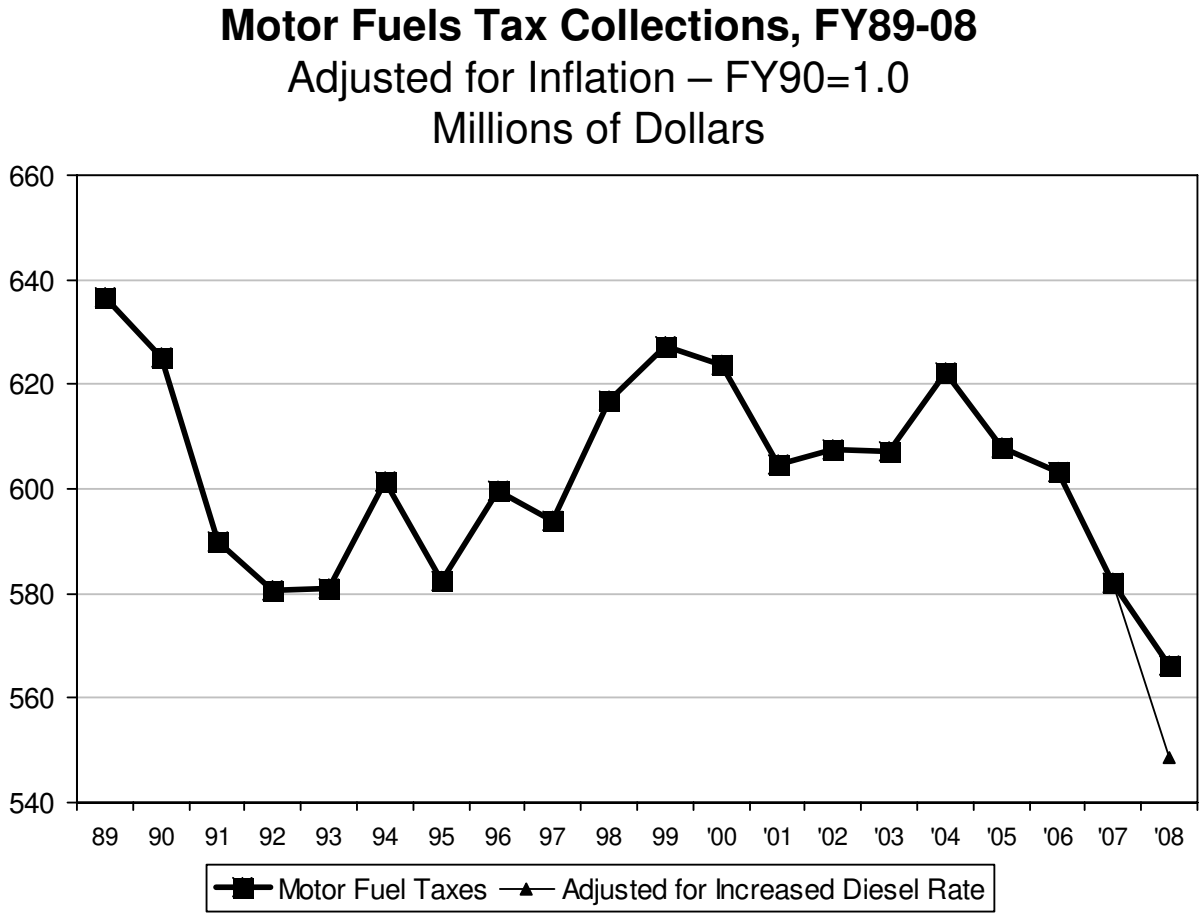
Similar to the FY01 recession, motor fuel tax collections are expected to fall in FY09…

Motor Fuels Tax Collections, FY95 – FY10
Millions of Dollars



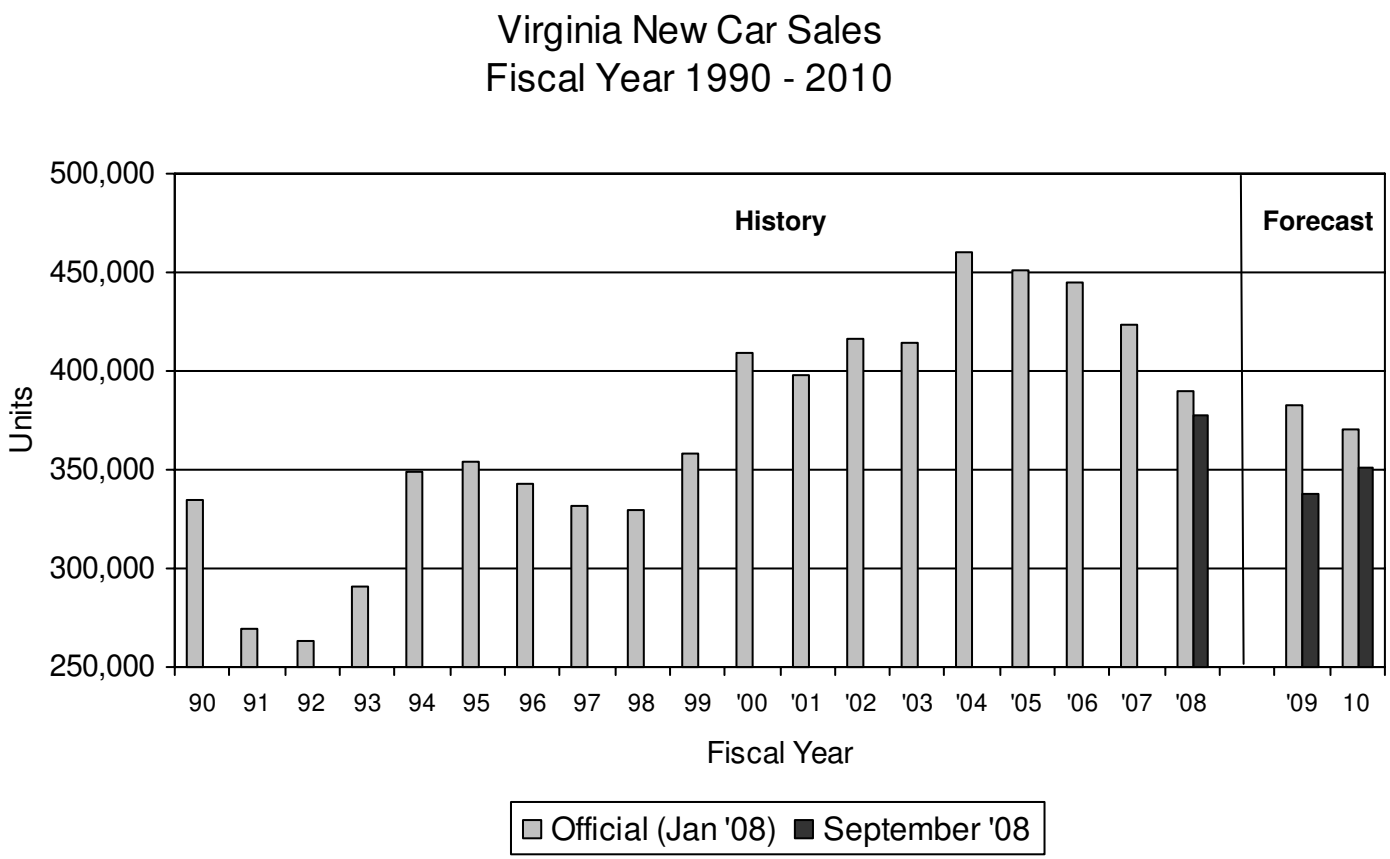
- Since FY95, the average annual percent change in motor fuels tax collections (HMOF) is 2.1%. Over the last four years, the average annual growth has been 0.3%.

Adjusted for inflation, motor fuels tax collections are at 20-year lows…



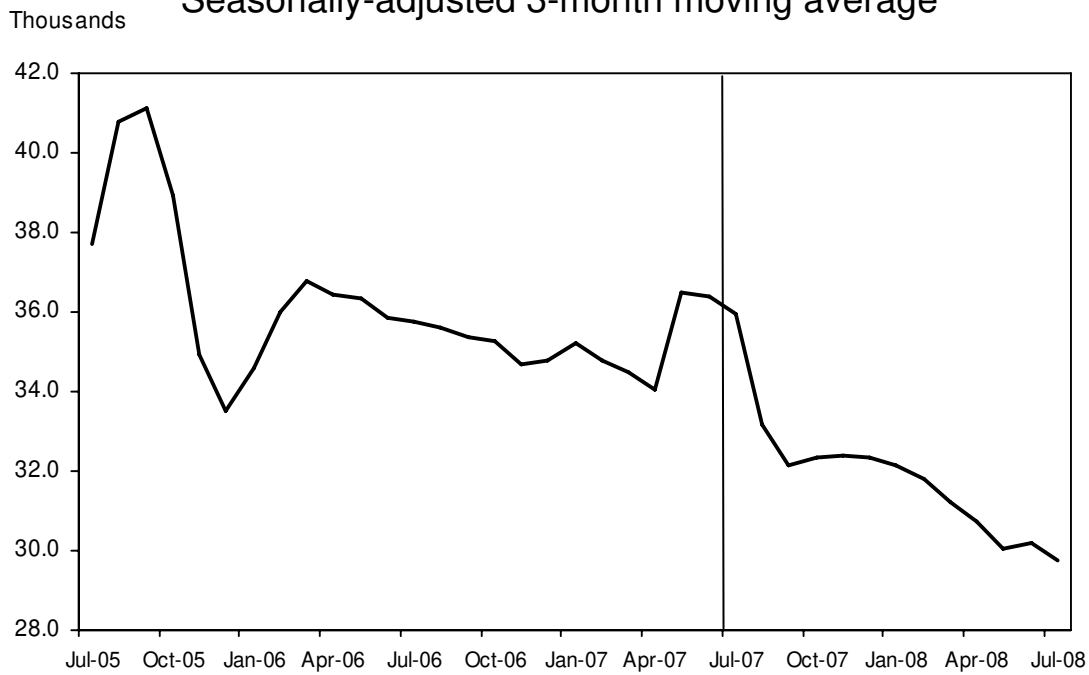
- FY08 collections were 9.0% below the level recorded in FY04.

The number of new vehicles sold in Virginia in fiscal year 2009 is expected to fall to levels not seen since the mid-1990's…



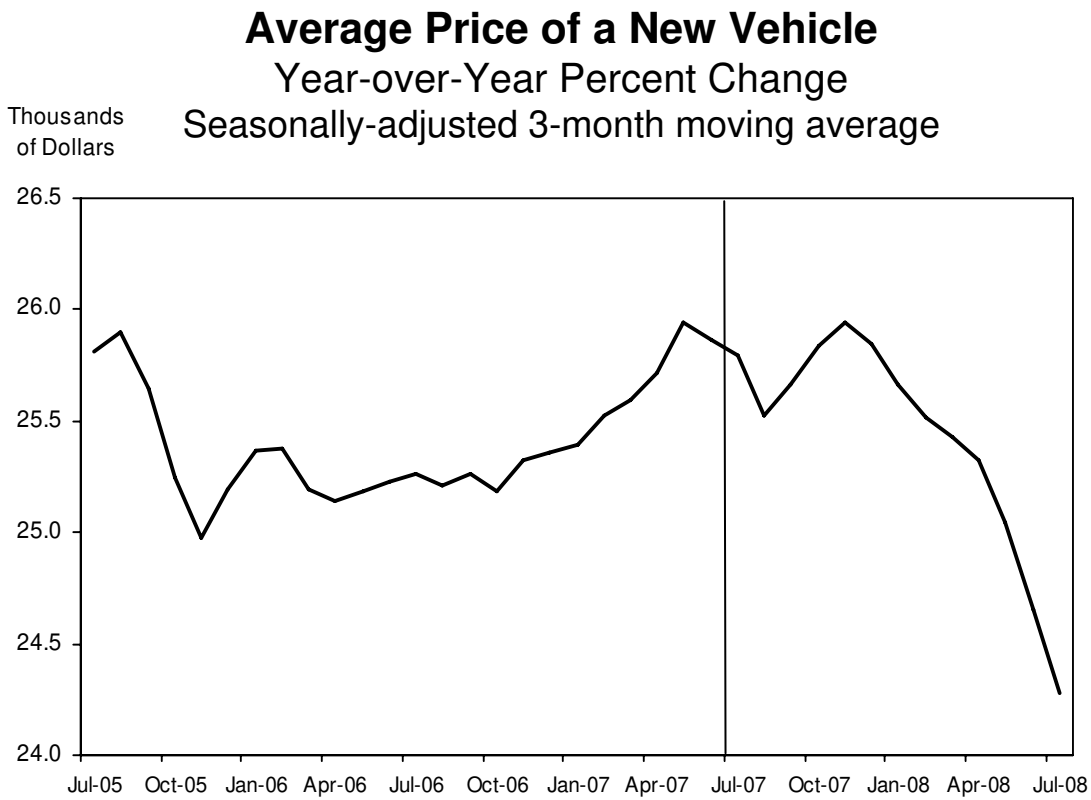
The automotive sector contracted sharply during fiscal year 2008…

New Taxable Titles
Year-over-Year Percent Change
Seasonally-adjusted 3-month moving average



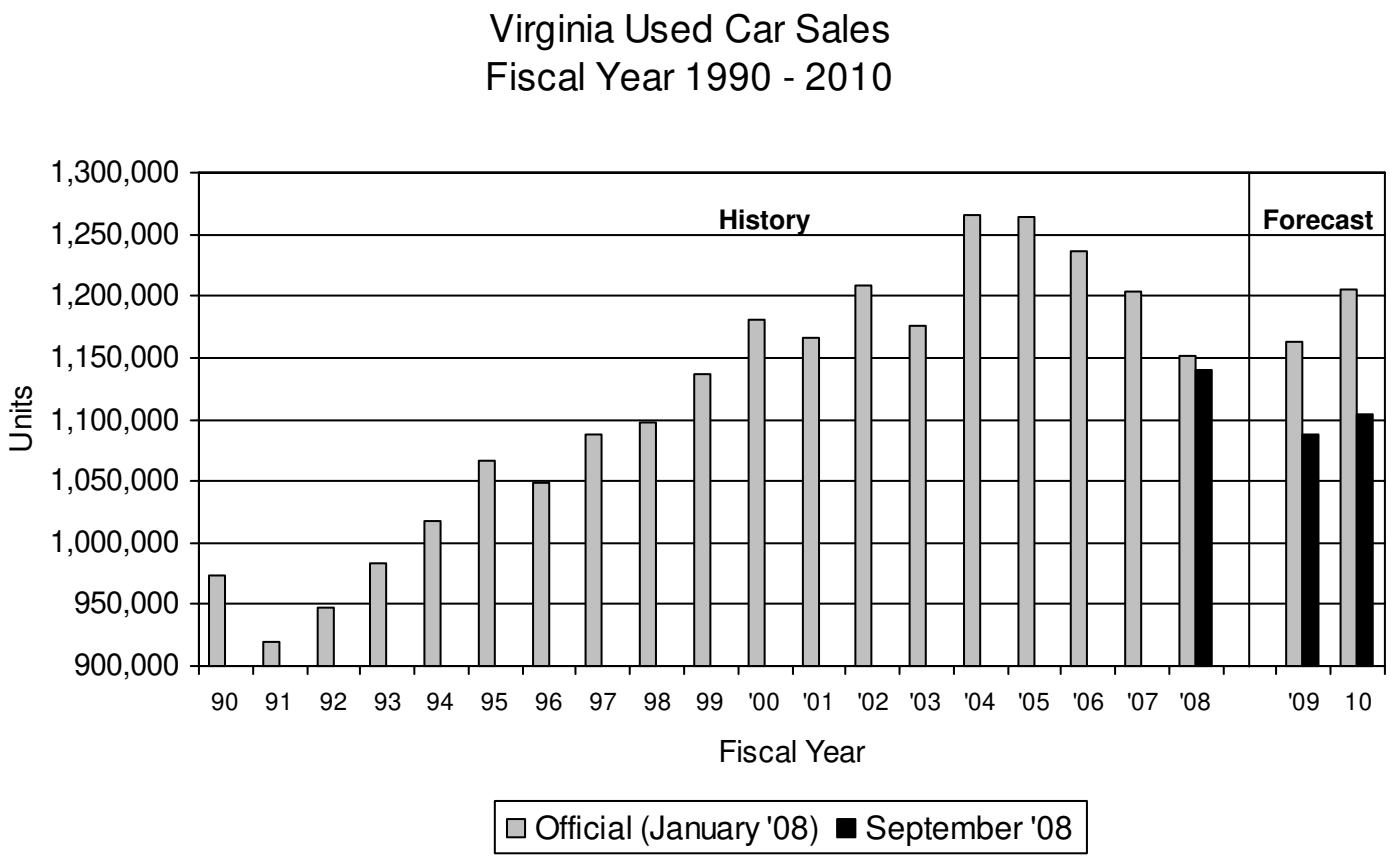
- The seasonally-adjusted 3-month moving average has fallen below 30,000 for the first time since February 1999.

New vehicle prices have fallen precipitously over the course of calendar year 2008…

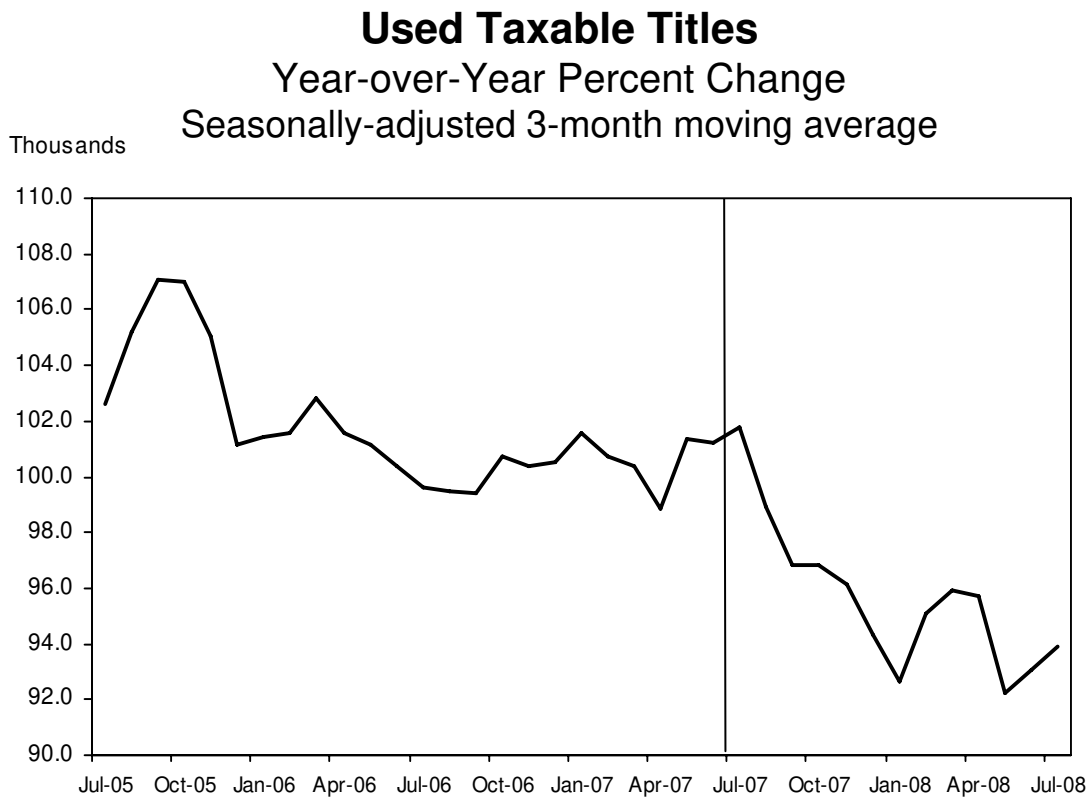


- The average price of a new vehicle has fallen to spring-2003 levels.

Used vehicle sales have declined for four consecutive years…

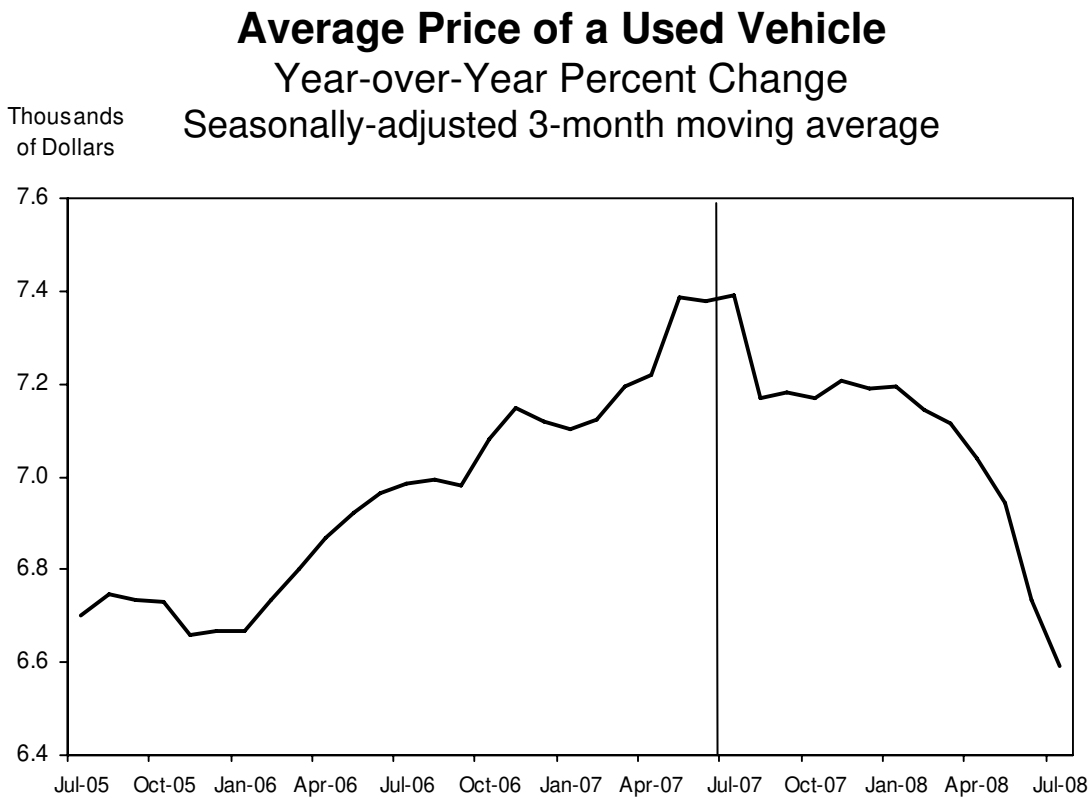


Sales of used vehicles have also dropped off…



- Used taxable titles have retreated to late-2004/early-2005 levels.

Lower new vehicle prices are depressing prices of used vehicles…



- As with volumes, used vehicle prices have fallen to early-2005 levels.

Summary of the September HMOF Revenue Forecast

	Fiscal Year 2009			Fiscal Year 2010		
	Estimate	% Growth	$ Change*	Estimate	% Growth	$ Change*
Motor Fuels Tax	$ 723.3	(2.2) %	$ (56.2)	$ 727.0	0.5 %	$ (64.2)
Road Tax	1.0	16.7	2.7	1.0	0.0	3.9
Motor Vehicle Sales Tax	315.7	(11.1)	(58.8)	330.9	4.8	(53.5)
Motor Vehicle License Fee	223.4	1.2	(12.9)	226.7	1.5	(14.2)
International Registration Fee	72.2	(2.6)	5.6	74.5	3.2	5.8
Recordation Tax (1 cent)	14.6	n/a	(0.7)	15.3	4.8	(1.4)
Miscellaneous	13.2	(11.4)	(2.6)	13.2	0.0	(2.7)
Total	**$ 1,363.4**	**(3.0) %**	**$ (122.9)**	**$ 1,388.6**	**1.8 %**	**$ (126.3)**

The September forecast is based on the August 2008 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates input from the GABE.

Notes:

* Reflects the dollar difference between the official and September forecasts.

- Over the next six years, HMOF collections are being reduced by a total of $739.9 million.