



Revenue Update

A Briefing for the House Appropriations Committee

Jody M. Wagner

Secretary of Finance

Commonwealth of Virginia

www.finance.virginia.gov

February 13, 2008

Current Economic Conditions

National Economy

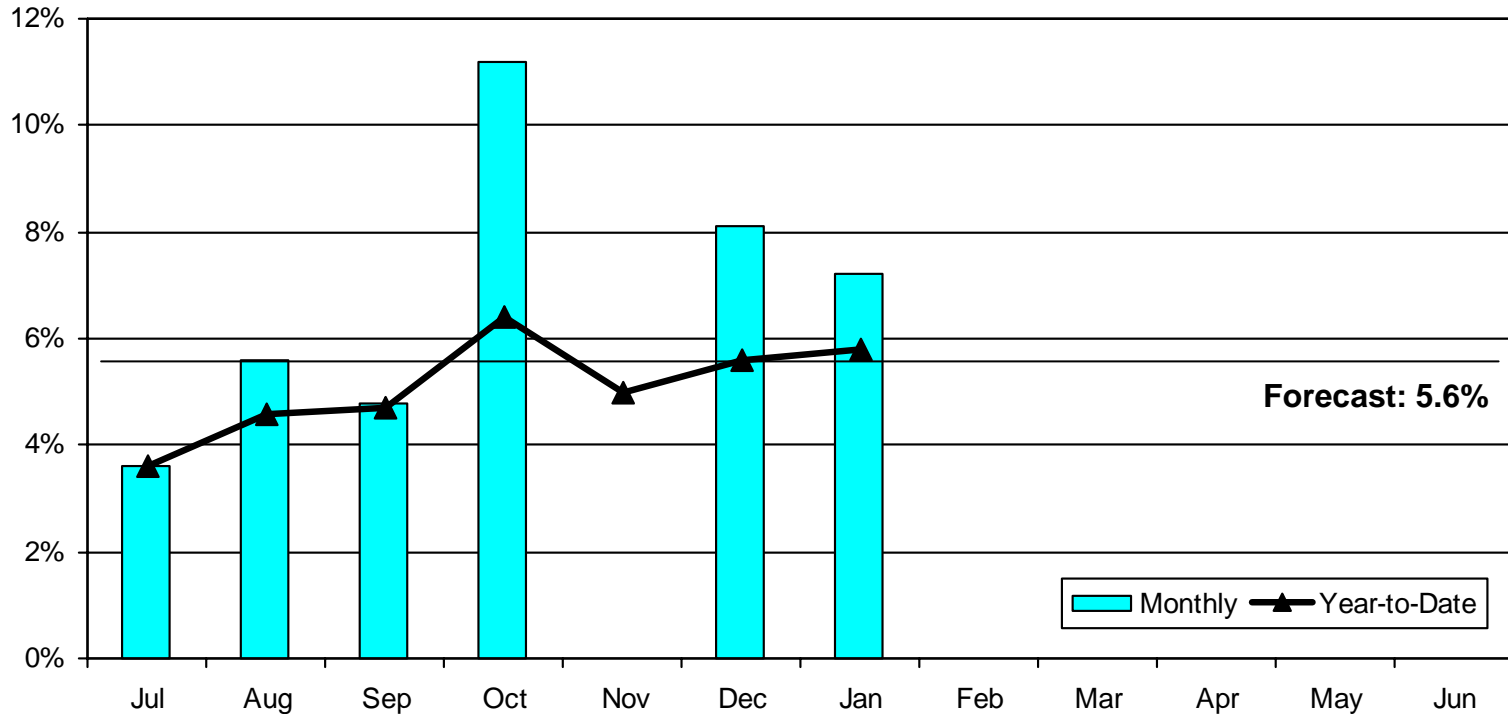
- Recent indicators depict deteriorating economic conditions, as the housing shock and credit crunch spread through the economy. Some analysts believe the economy has entered a recession. In response to the slowing economy, the federal government passed a \$168 billion fiscal stimulus plan.
 - Real GDP grew just 0.6 percent in the fourth quarter and is expected to be negative over this and the next quarter according to Global Insight's latest monthly forecast.
 - The job market weakened significantly in January – payroll employment fell by 17,000 jobs for the month, the first decline since August 2003.
 - Retail sales declined 0.4% in December (excluding autos).
- At its January 30 meeting, the Federal Reserve lowered the federal funds rate by 50 basis points. This came after the emergency meeting rate cut of 75 basis points in the previous week. Since September, the Fed has lowered the rate from 5.25 percent to 3.0 percent.

Current Economic Conditions

Virginia Economy

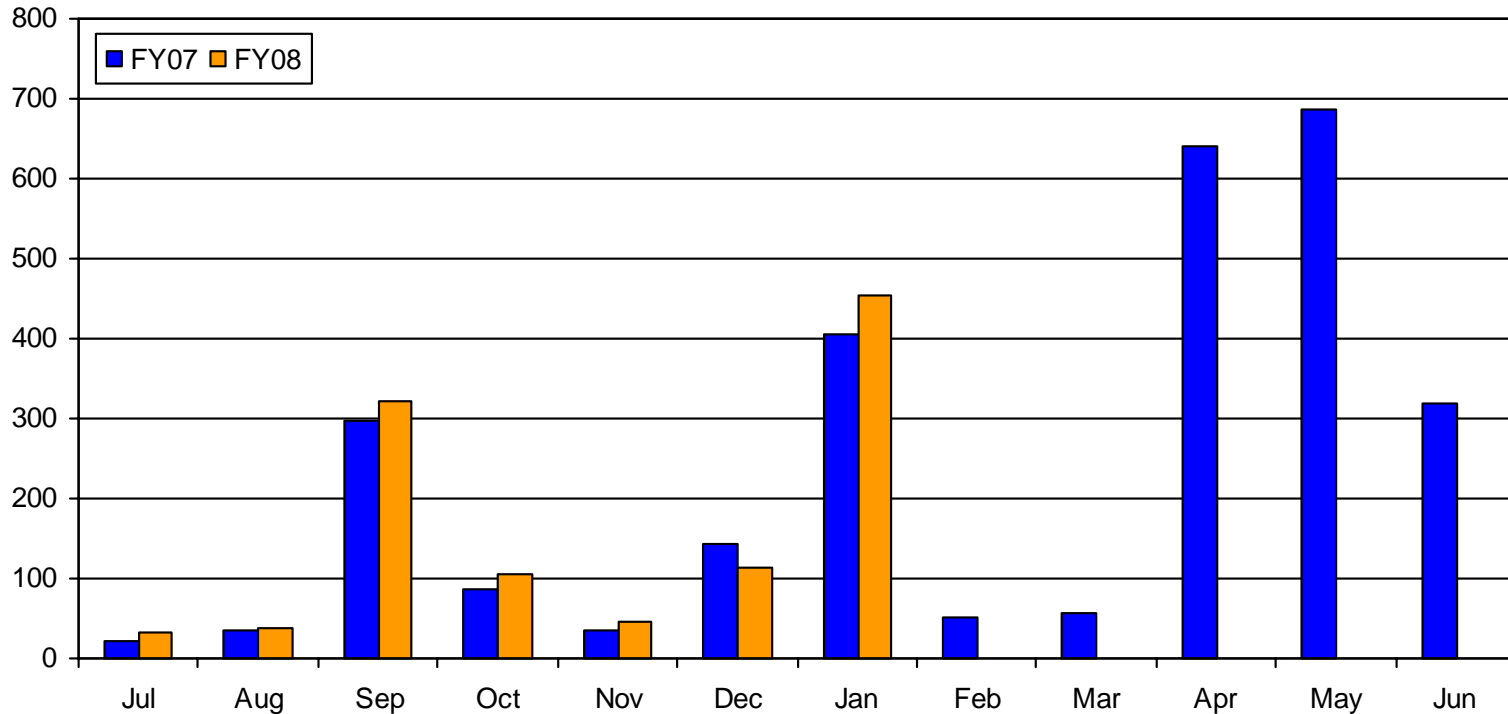
- Job growth in Virginia continued at a moderate pace in December, increasing 1.7 percent. Most major metro areas continue to show modest growth.
- The unemployment rate continues to reflect tight labor market conditions. The current 3.3 percent unemployment rate is significantly below the national rate of 4.9 percent.
- The Virginia leading index advanced 0.5 percent in December, its first increase in five months. Two of the three components of the index -- auto registrations and initial unemployment claims -- contributed to the growth in December. Building permits continued to detract from growth.

Growth in Withholding Tax Collections FY08 Monthly and Year-to-Date



- Collections of payroll withholding taxes grew 7.2 percent in January.
- Year-to-date withholding growth is 5.8 percent, close to the projected annual growth rate.

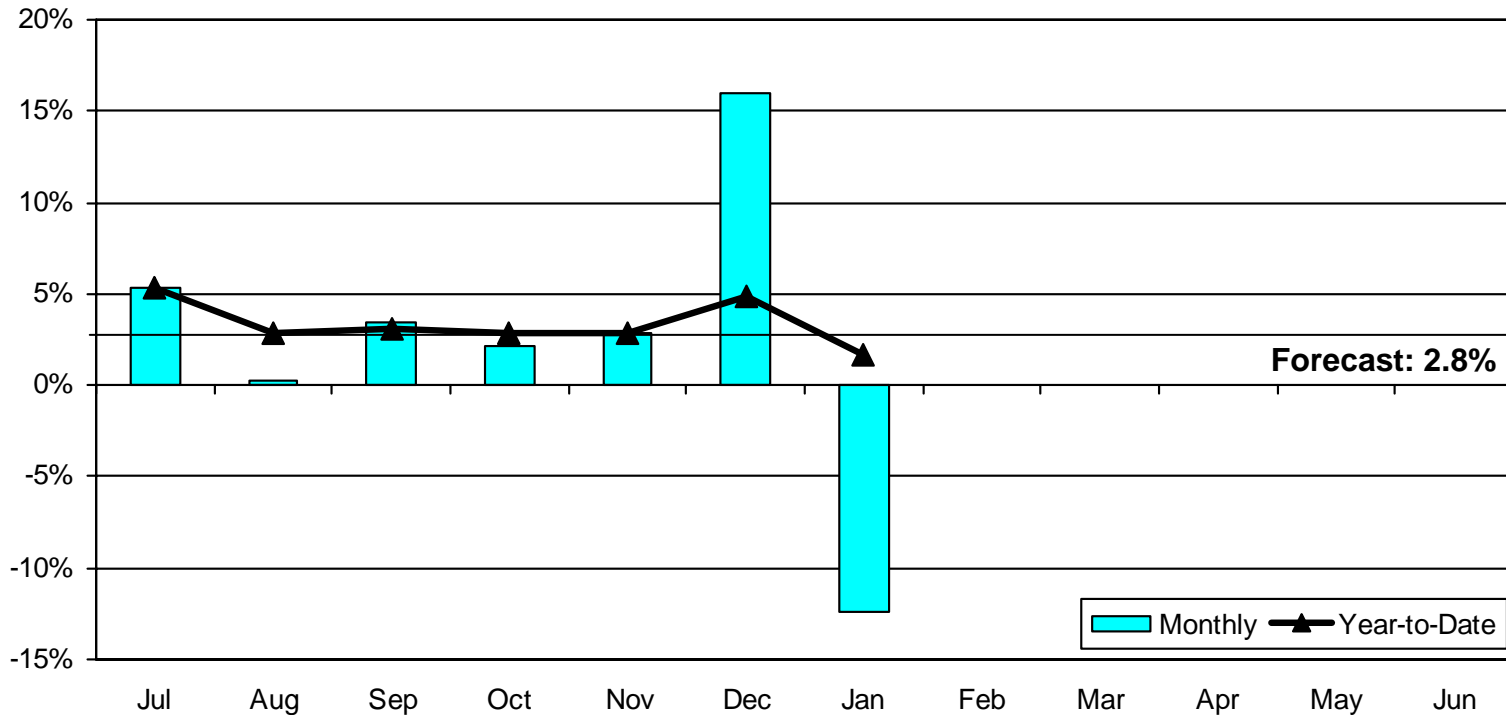
Nonwithholding Tax Collections FY07 and FY08 Monthly



- Collections of nonwithholding in January 2008 increased 12.2 percent from January 2007. Year-to-date, collections in this source are 8.0 percent above the same period last year, lagging the estimate of a 10.0 percent increase.
- December and January are significant months for collections in this source, and growth can be distorted by the timing of payments. The two month total in receipts shows a 3.4 percent increase, a significant slowdown from September's 8.1 percent increase.

Growth in Sales Tax Collections

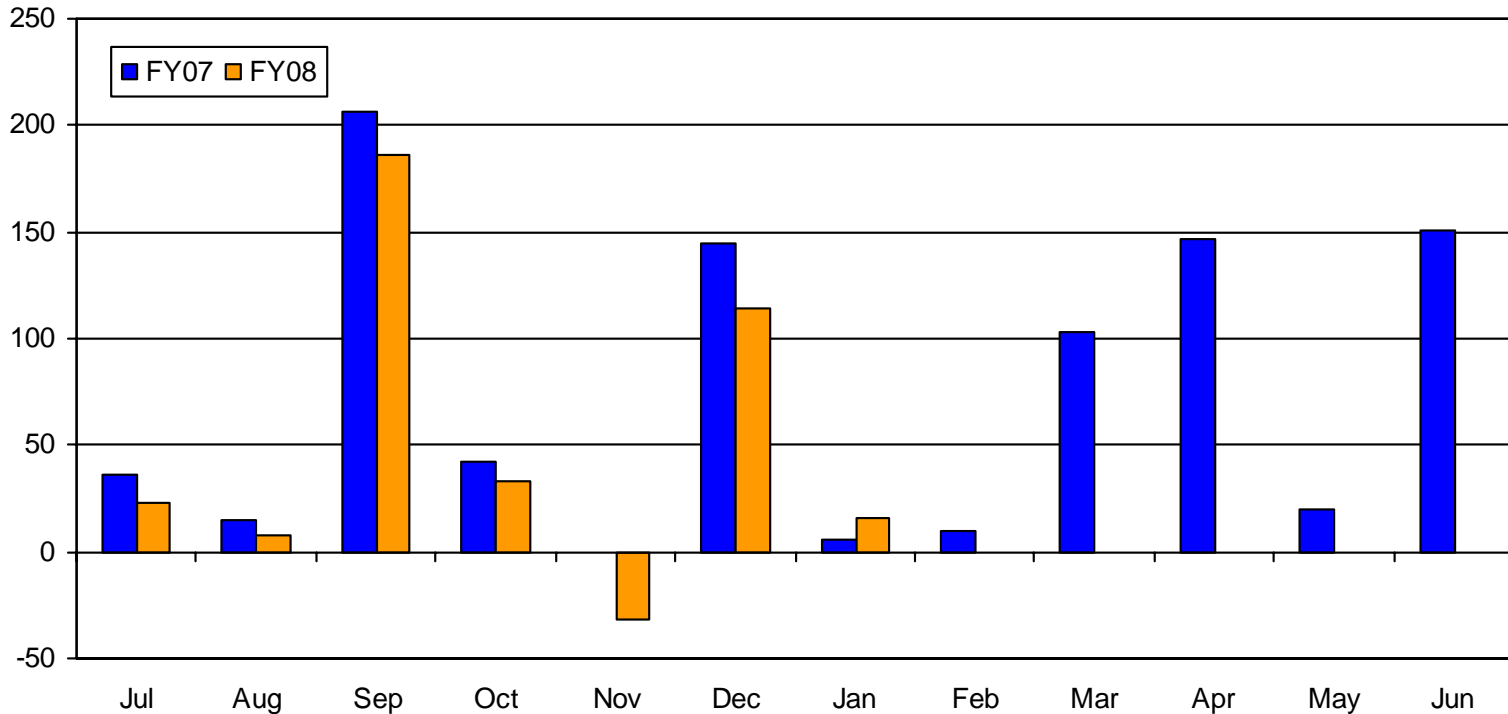
FY08 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting December sales, fell 12.4 percent in January after increasing 16.0 percent in November.
- On a year-to-date basis, collections of sales and use taxes have increased 1.7 percent, trailing the forecasted growth rate of 2.8 percent.
- The main holiday shopping season, as represented by the two month total for November and December, declined 0.6 percent, the first decline since fiscal year 2003 and only the third decline in 18 years.
 - A complete picture of the holiday season will be available once February receipts are available which reflect January post-holiday sales and gift card redemptions.

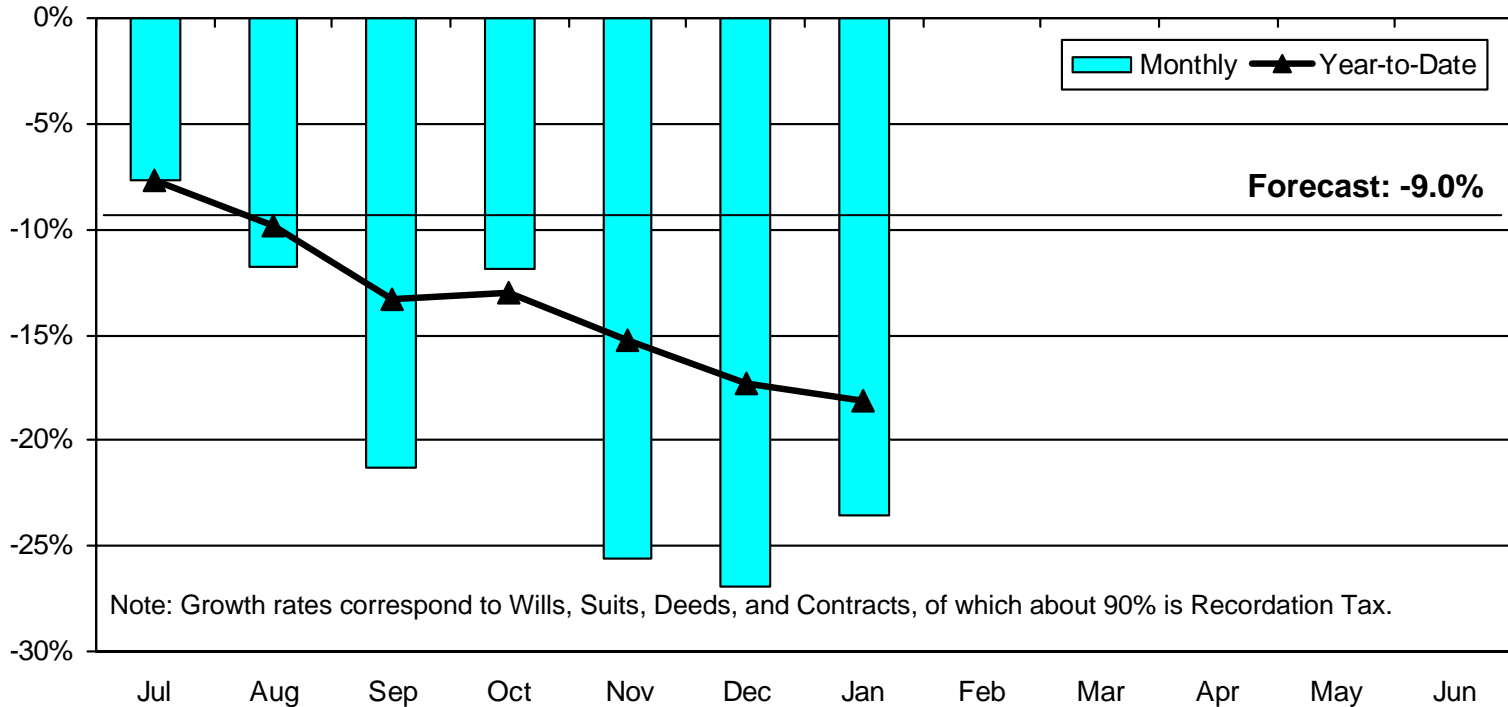
Net Corporate Income Tax Collections

FY07 and FY08 Monthly



- Through the first seven month of the year, TAX has issued \$142.2 million in corporate refunds compared with \$87.7 million during the same period last year.
- On a year-to-date basis, collections have fallen 22.3 percent from the same period last year, behind expectations of a 15.0 percent decline.

Growth in Recordation Tax Collections FY08 Monthly and Year-to-Date

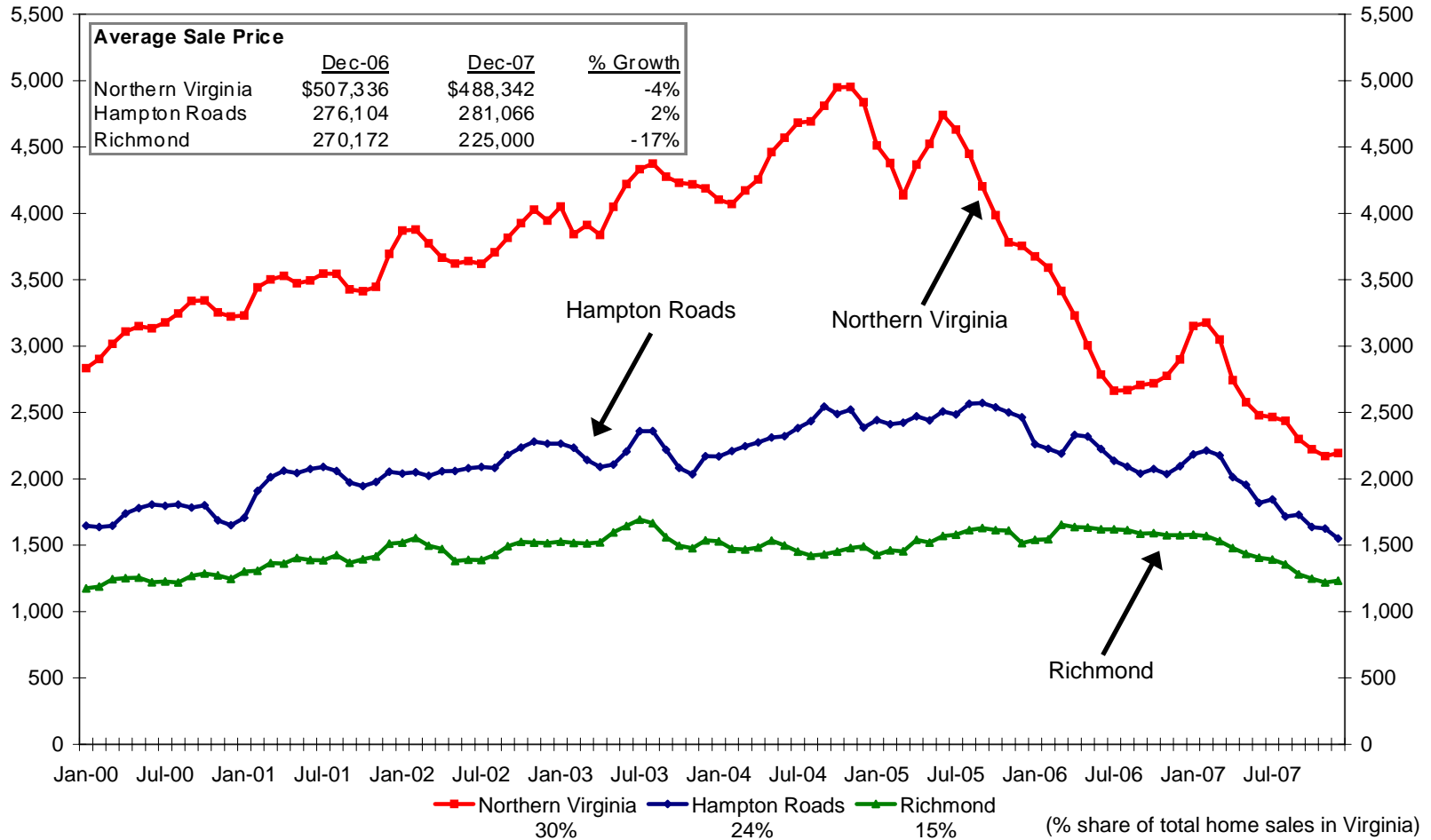


- Recordation tax collections fell 23.5 percent in January as the housing market continued to slow.
- On a year-to-date basis, collections declined 18.1 percent from last year, compared with the estimate of a 10.7 percent annual decline.

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

Levels

Seasonally-adjusted 3-month moving average



- Pending home sales in the three major metropolitan areas, representing about 70% of total recordation taxes, are down 27% from prior year levels.

Summary of Fiscal Year 2008 Revenue Collections

July through January

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>December 2007 Estimate</u>	<u>Variance</u>
Withholding	56.2 %	5.8 %	5.6 %	0.2 %
Nonwithholding	19.0	8.0	10.0	(2.0)
Refunds	(10.4)	4.0	7.7	(3.7)
Net Individual	64.8	6.3	6.5	(0.2)
Sales	19.5	1.7	2.8	(1.1)
Corporate	4.6	(22.3)	(15.0)	(7.3)
Wills (Recordation)	3.2	(18.1)	(10.7)	(7.4)
Insurance	2.5	13.4	4.8	8.6
All Other Revenue	5.3	9.9	(2.6)	12.5
Total	100.0 %	3.3 %	3.3 %	0.0 %

Mid-Session Revenue Forecast

- Due to the increased uncertainty about growth prospects for the U.S. and Virginia economies, the Governor called an interim meeting of the Governor's Advisory Board of Economists (GABE).
- At its February meeting, the GABE reviewed the January standard and alternative low-growth forecasts for Virginia.
 - In the standard forecast, the Virginia economy was expected to grow near trend over the forecast horizon, similar to the October forecast on which the introduced budget was based.
 - In the alternative low-growth scenario, a deeper housing recession and high oil prices result in a significant slowdown in employment and income growth, particularly in fiscal year 2009.
- Overall, the GABE recommended the “most probable” path for the economy as somewhere in between the January standard and low-growth scenarios.
 - None of the GABE members recommended the January standard forecast, with three recommending the alternative low-growth scenario in the short term.

Key Virginia Economic Indicators
October Standard and GABE Forecasts
(annual percent change)

	Fiscal Year					10-year Average
	06	07	08	09	10	
Employment						
October Std. ('07)	2.1	1.4	1.1	1.5	1.8	1.8
GABE			1.1	1.0	1.8	
Personal Income						
October Std. ('07)	6.4	5.2	5.6	5.9	6.2	6.0
GABE			5.2	5.4	6.2	
Wages & Salaries						
October Std. ('07)	6.2	5.4	5.5	5.2	6.0	6.2
GABE			5.2	4.8	5.9	
Average Wage						
October Std. ('07)	4.0	3.9	4.4	3.7	4.1	4.4
GABE			4.0	3.7	4.0	

Mid-Session Revenue Forecast (cont'd)

- The GABE economic outlook served as the basis for the February GABE revenue forecast that was presented to the Governor's Advisory Council on Revenue Estimates (GACRE).
- Overall, the GACRE supported GABE's "most probable" path for the Virginia economy.
- Based on comments of members of the GACRE, one additional revision was made to the February GABE General Fund revenue forecast.
 - The sales tax growth outlook was reduced from the standard to the low-growth for FY09 and FY10. The downward revisions reflect weaker prospects for housing, specifically a delay in the recovery from the fourth quarter of 2008 to the first quarter of 2009.

Summary of the February Post-GACRE General Fund Revenue Forecast

Major Source	As a % of Total Revenues	Fiscal Year 2008 (a)		Fiscal Year 2009 (b)		Fiscal Year 2010	
		% Growth	\$ Change	% Growth	\$ Change	% Growth	\$ Change
Withholding	56.2 %	5.2 %	\$ (31.4)	5.5 %	\$ (95.3)	6.3 %	\$ (72.4)
Nonwithholding	19.0	3.2	(188.6)	6.5	(222.3)	8.4	(230.2)
Refunds	(10.4)	9.6	28.6	4.3	(12.0)	2.2	(9.8)
Net Individual	64.8 %	3.9 %	\$ (248.6)	6.0 %	\$ (305.6)	7.6 %	\$ (292.8)
Sales	19.5 %	1.6 %	\$ (39.6)	4.2 %	\$ (73.7)	5.1 %	\$ (96.6)
Corporate	4.6	(20.5)	(48.8)	0.6	(40.2)	3.2	(58.2)
Wills (Recordation)	3.2	(15.0)	(24.8)	(23.1)	(68.6)	9.0	(74.7)
Insurance	2.5	8.7	15.0	(29.5)	10.6	7.6	11.4
All Other Revenue	5.3	(1.8)	7.5	(18.7)	(42.6)	5.8	(21.3)
Total	100.0 %	1.2 %	\$ (339.3)	2.2 %	\$ (520.1)	6.8 %	\$ (532.2)

* The February Post-GACRE forecast is based on the January 2008 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates input from the GABE and GACRE and revenue collection data through January.

Notes:

(a) Adjusted for the Estate Tax repeal, underlying growth is 1.4%.

(b) Adjusted for the Estate Tax repeal and HB 3202 (Transportation Plan), underlying growth is 4.1%.

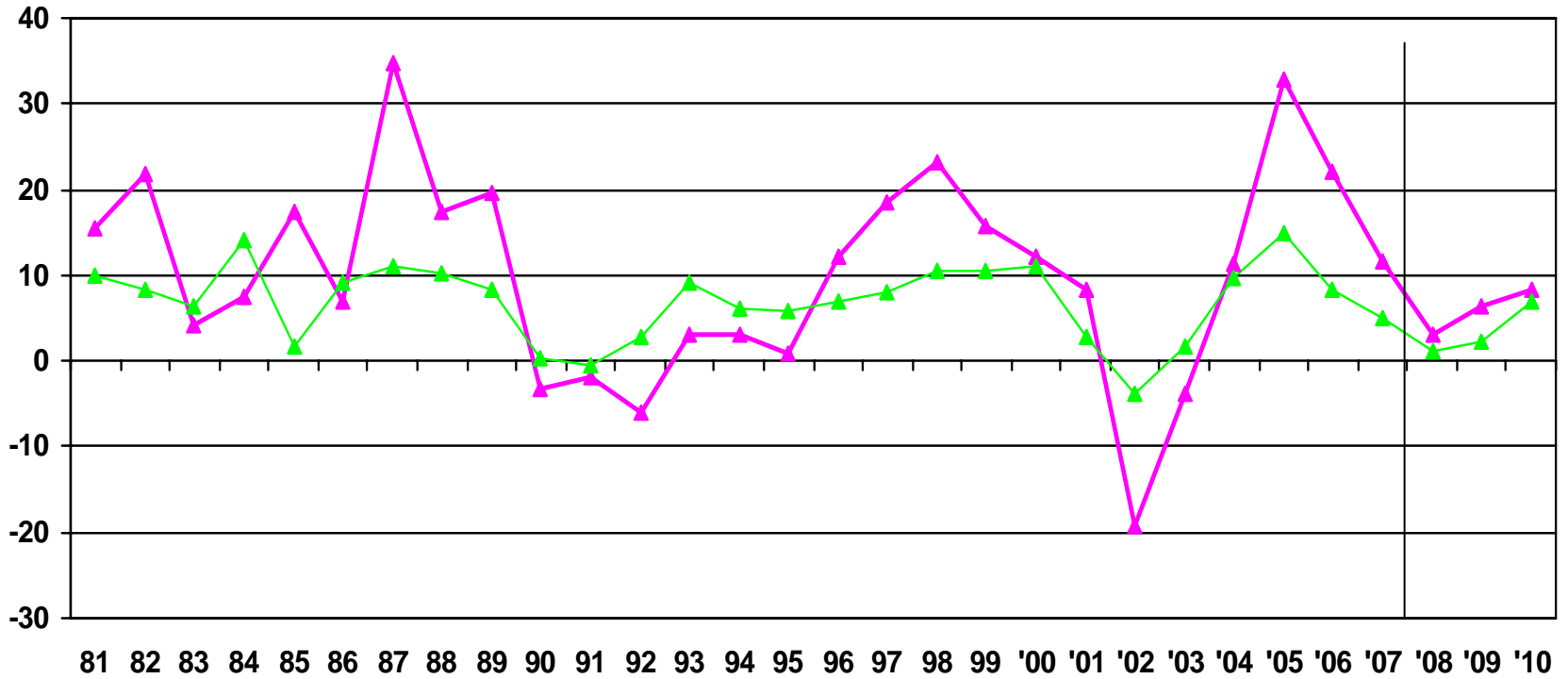
Summary of Fiscal Year 2008 Revenue Collections

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year			
		<u>November YTD</u>	<u>Dec-Jan Growth</u>	<u>Feb-Jun Required</u>	<u>February Estimate</u>
Withholding	57.2 %	5.0 %	7.6 %	4.3 %	5.2 %
Nonwithholding	18.2	13.4	3.4	0.4	3.2
Refunds	(10.9)	(7.5)	26.9	10.9	9.6
Net Individual	64.6	6.8	5.5	0.7	3.9
Sales	19.7	2.8	(0.6)	1.3	1.6
Corporate	4.4	(26.7)	(13.7)	(18.6)	(20.5)
Wills (Recordation)	3.1	(15.3)	(25.3)	(10.6)	(15.0)
Insurance	2.7	5.8	20.0	5.8	8.7
All Other Revenue	5.5	11.7	3.6	(14.7)	(1.8)
Total	100.0 %	3.6 %	2.7 %	(1.7) %	1.2 %

Nonwithholding and Total General Fund

Fiscal Year Percent Change

Percent Change



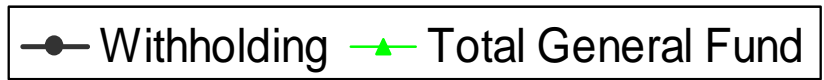
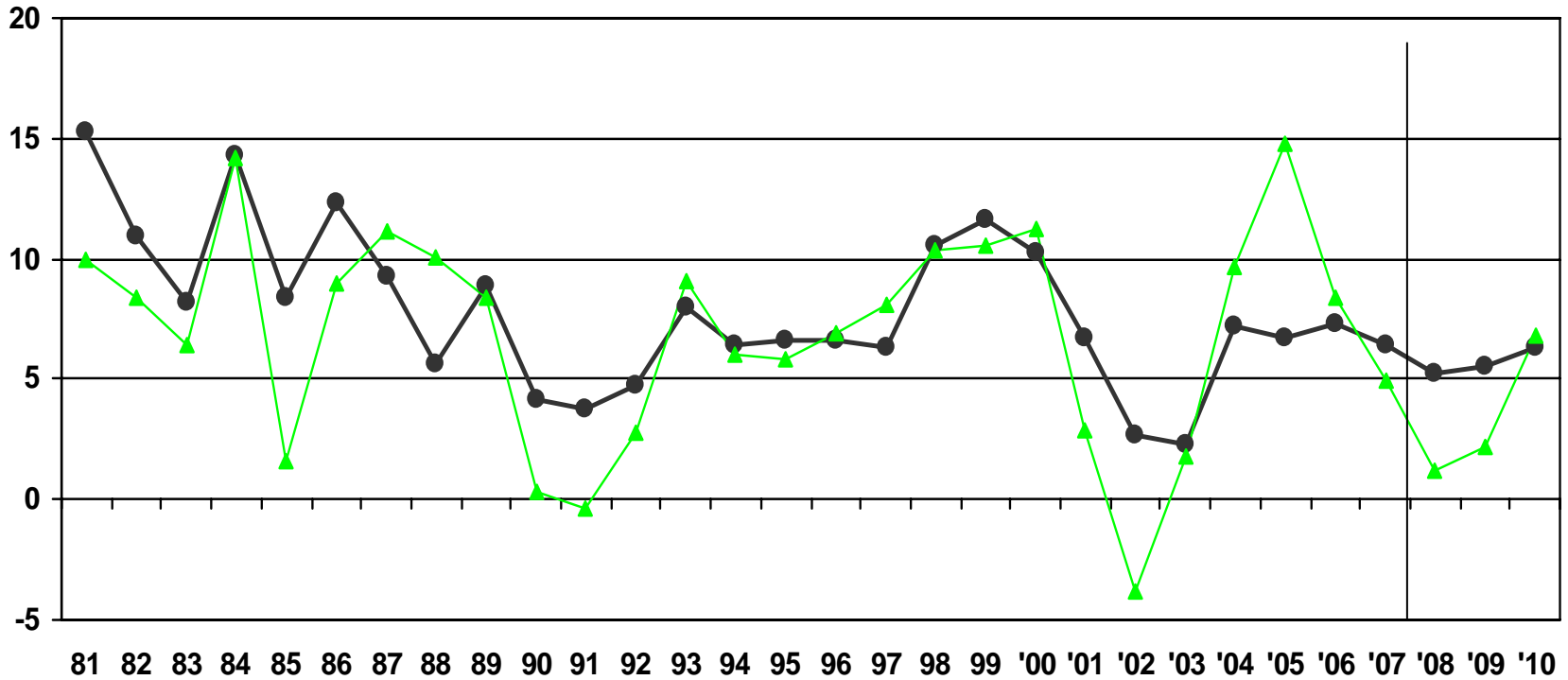
—▲ Nonwithholding —▲ Total General Fund

* FY08-10 is forecast

Withholding and Total General Fund

Fiscal Year Percent Change

Percent Change

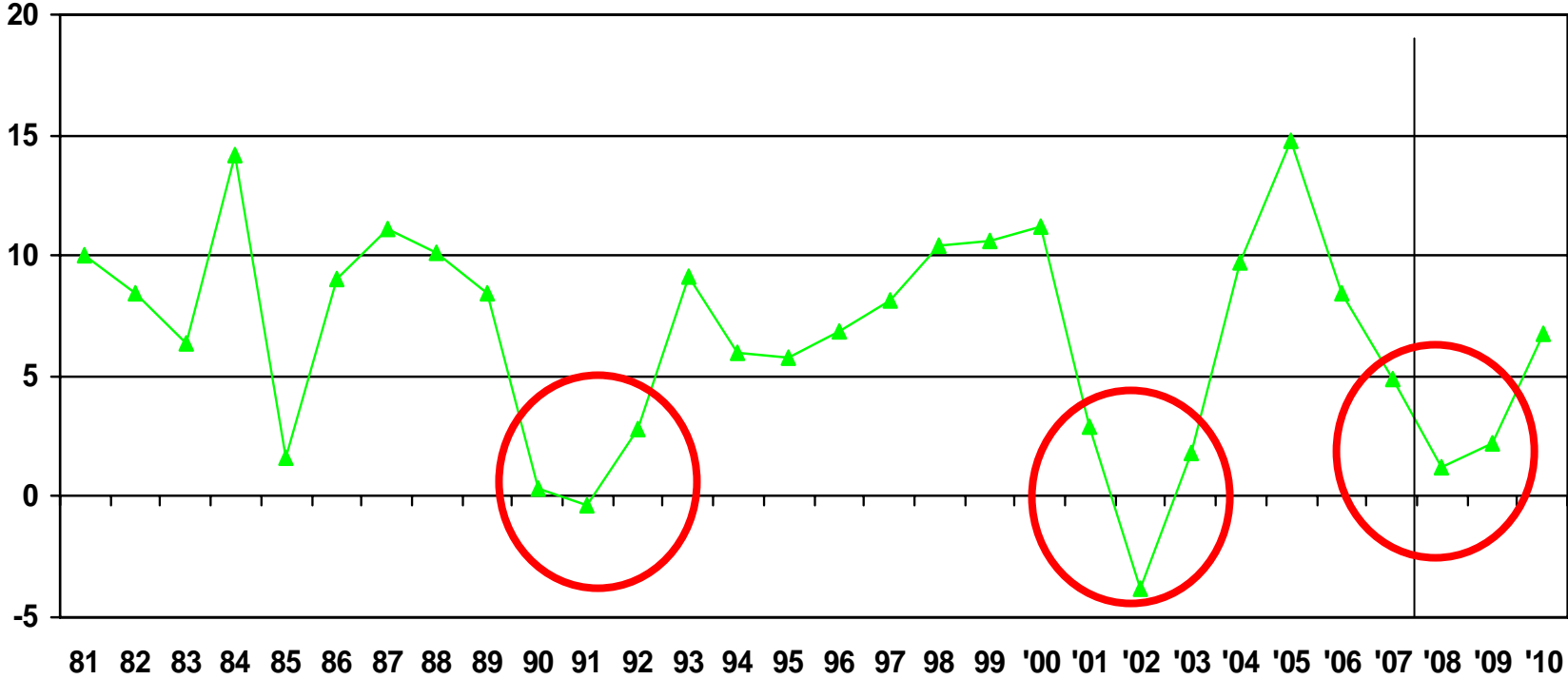


* FY08-10 is forecast

Total General Fund

Fiscal Year Percent Change

Percent Change

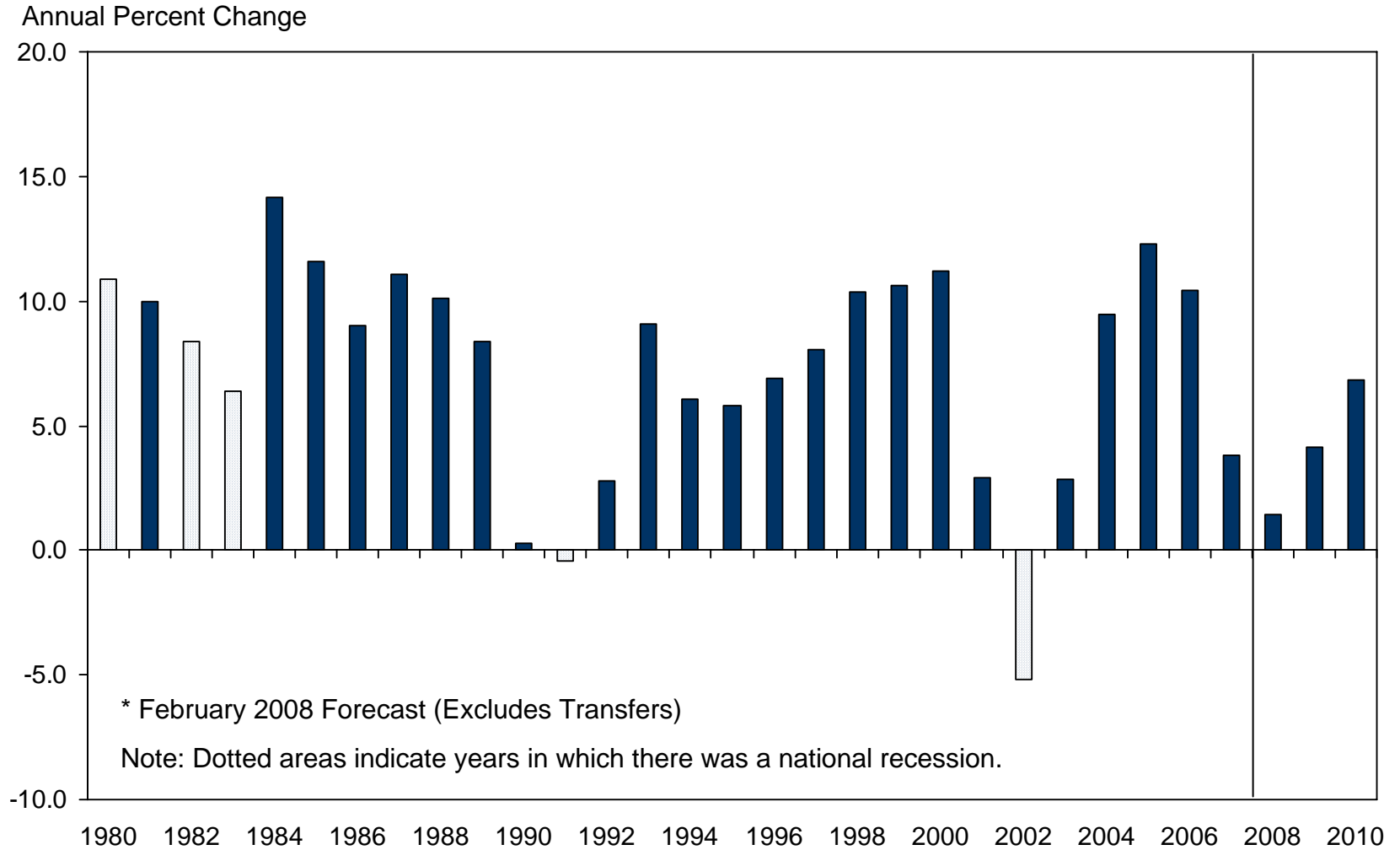


▲ Total General Fund

* FY08-10 is forecast

Total General Fund Revenues

Fiscal Year 1980-07 Actual and Fiscal Year 2008-10 Forecast
(Adjusted for Legislative Changes)

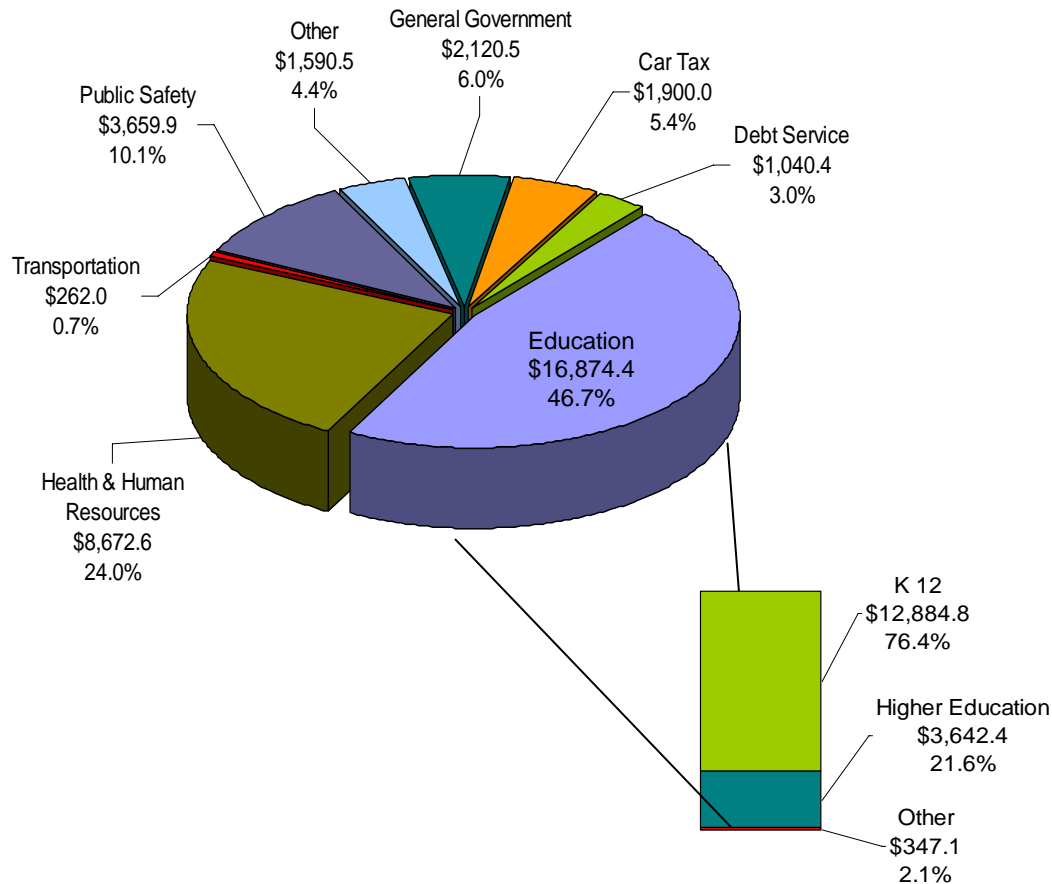


* FY08-10 is forecast

Where the Money Goes 2008-2010

General Fund Operating = \$35.1 Billion

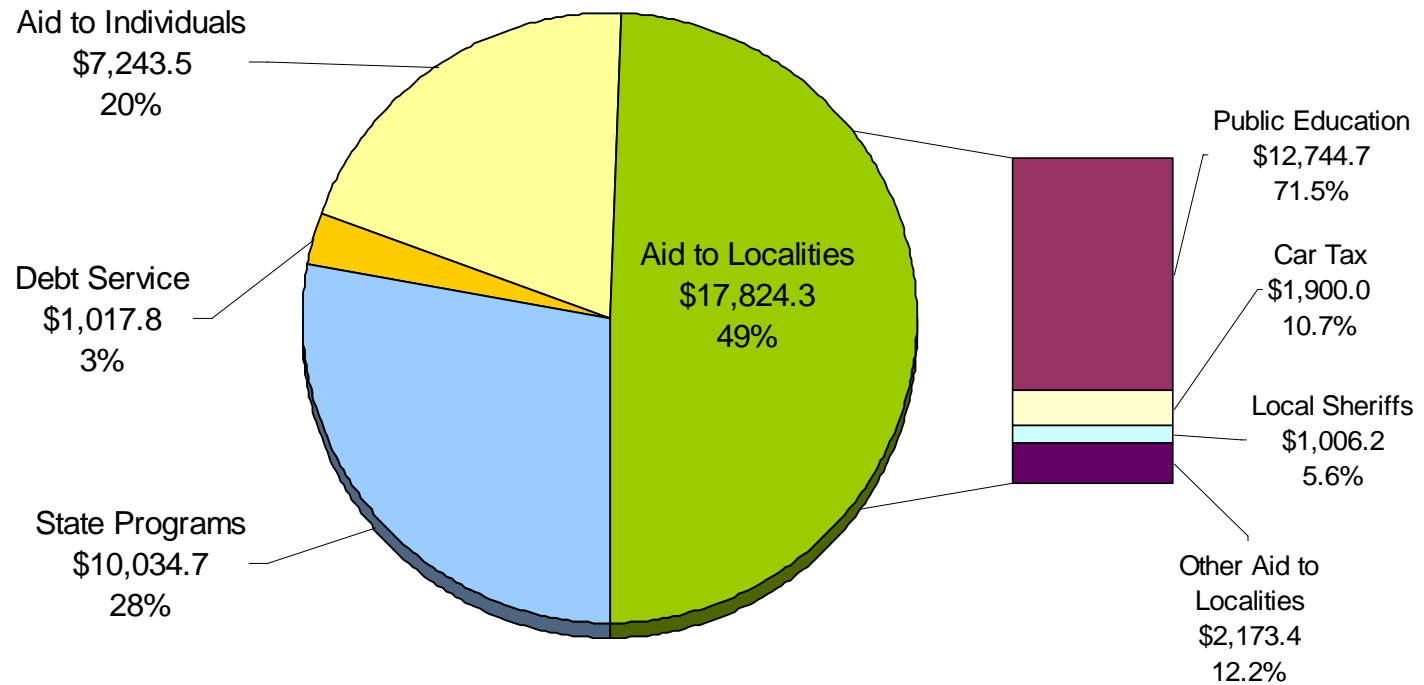
- 80.8% of state general fund revenues are for education, public safety, and health programs.



"Other" includes legislative and judicial branches, technology, natural resources, commerce and trade, 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: Governor Kaine's Proposed 2008-2010 Biennial Budget

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



Budget Balancing Plan

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Revenue Shortfall	(\$339.3)	(\$520.1)	(\$532.2)
Corrective Actions:			
Revenue Stabilization Fund	\$162.4	\$0.0	\$0.0
Bond existing general fund capital outlay	\$70.0	\$222.6	(\$23.7)
Automatic sales tax adjustment for K-12	\$5.7	\$10.9	\$14.7
Targeted savings strategies	\$83.1	\$199.5	\$300.9
Reduce appropriations to state agencies*	\$21.2	\$102.0	\$102.0
Reduce appropriations to localities**	<u>\$0.0</u>	<u>\$64.7</u>	<u>\$65.9</u>
Total Corrective Actions	\$342.4	\$599.7	\$459.8
Difference between Corrective Actions & Shortfall	\$3.1	\$79.6	(\$72.4)
Cumulative Difference	\$3.1	\$82.7	\$10.3

*For executive branch agencies other than higher education, 0.5% reduction for FY 2008 and 3% in FY 2009 and FY 2010.

* Higher education institutions absorbed 5% to 6.4% reductions in October; accordingly, there is no further reduction for FY 2008. 2% reduction in FY 2009 and FY 2010.

**5.4% for FY 2009 and FY 2010. Excludes K-12 & car tax.

The Governor Is Proposing An Additional \$162.4 Million Withdrawal From The Revenue Stabilization Fund In Fiscal Year 2008...

Revenue Stabilization Fund -- June 30 Balance
FY 1995-07 Actual and FY 2008-10 Forecast
(millions of dollars)

