



Revenue Update

A Briefing for the Senate Finance Committee

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Current Economic Conditions

National Economy

- The labor market is slightly healthier than previously reported. Job growth increased 110,000 in September and August's decline of 4,000 was revised to a gain of 89,000.
- The Conference Board's index of leading indicators and consumer confidence both dropped in their most recent reports. Both are near 2-year lows.
- At the September meeting, the Federal Reserve lowered the federal funds rate by 50 basis points to 4.75, the first cut since 2003.
- The national housing market is considered to be the weakest in 16 years, with rising inventories, weak builder confidence, and declining prices.

Current Economic Conditions

Virginia Economy

- Job growth in Virginia continued at a moderate pace in August, increasing 1.7 percent. All major metro areas continue to show modest growth.
- The unemployment rate continues to reflect tight labor market conditions. The current 3.1 percent unemployment rate is significantly below the national rate of 4.7 percent.
- The Virginia leading index fell 0.2 percent in August, the second decline in nine months. A substantial drop in building permits and falling auto registrations offset an improvement in initial claims for unemployment.

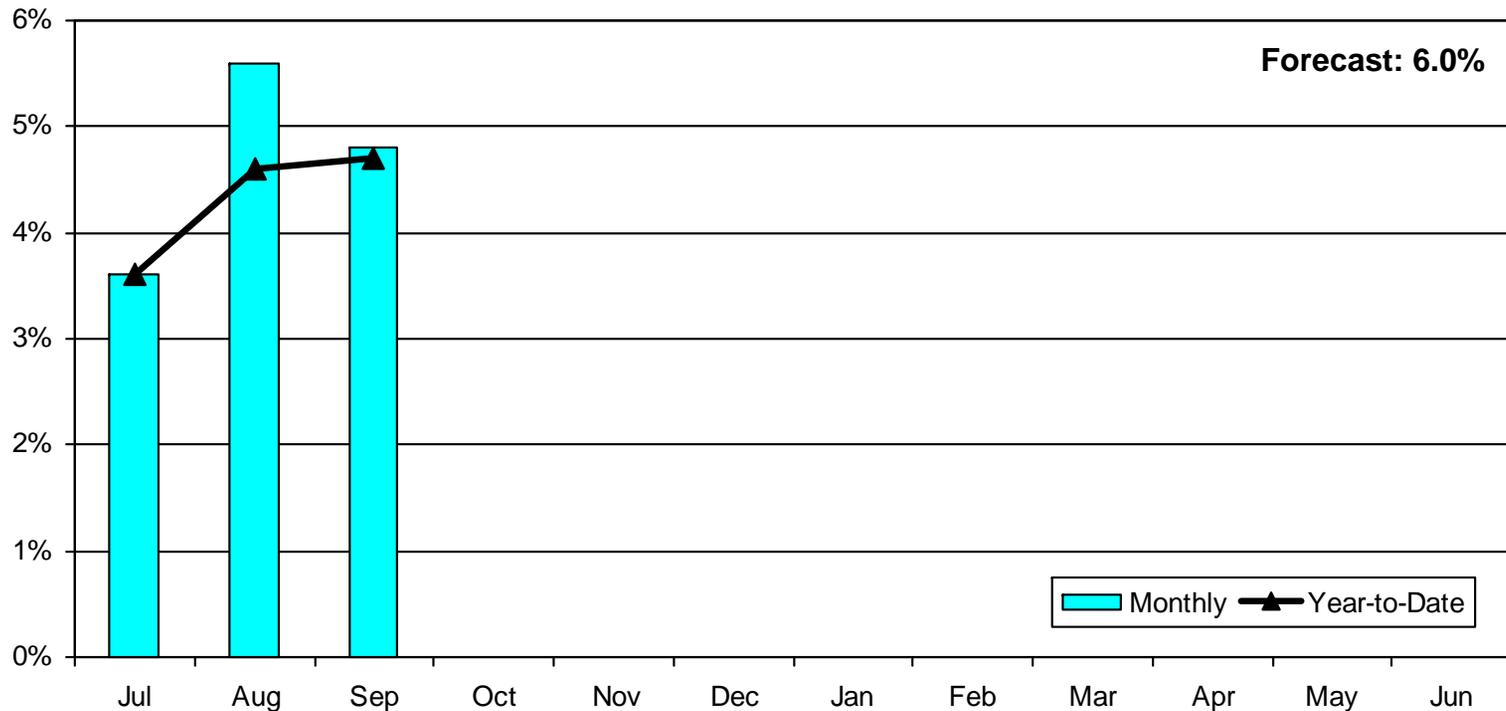
Summary of Fiscal Year 2008 Revenue Collections

July through September

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>August 2007 Estimate</u>	<u>Variance</u>
Withholding	56.7 %	4.7 %	6.0 %	(1.3) %
Nonwithholding	18.9	10.7	6.6	4.1
Refunds	(10.8)	(24.1)	10.5	(34.6)
Net Individual	64.9	7.1	5.4	1.7
Sales	19.6	3.1	2.8	0.3
Corporate	4.5	(13.5)	(18.4)	4.9
Wills (Recordation)	3.3	(13.3)	(9.0)	(4.3)
Insurance	2.5	15.8	2.9	12.9
All Other Revenue *	5.3	(2.7)	5.2	(7.9)
Total	100.0 %	3.6 %	3.0 %	0.6 %

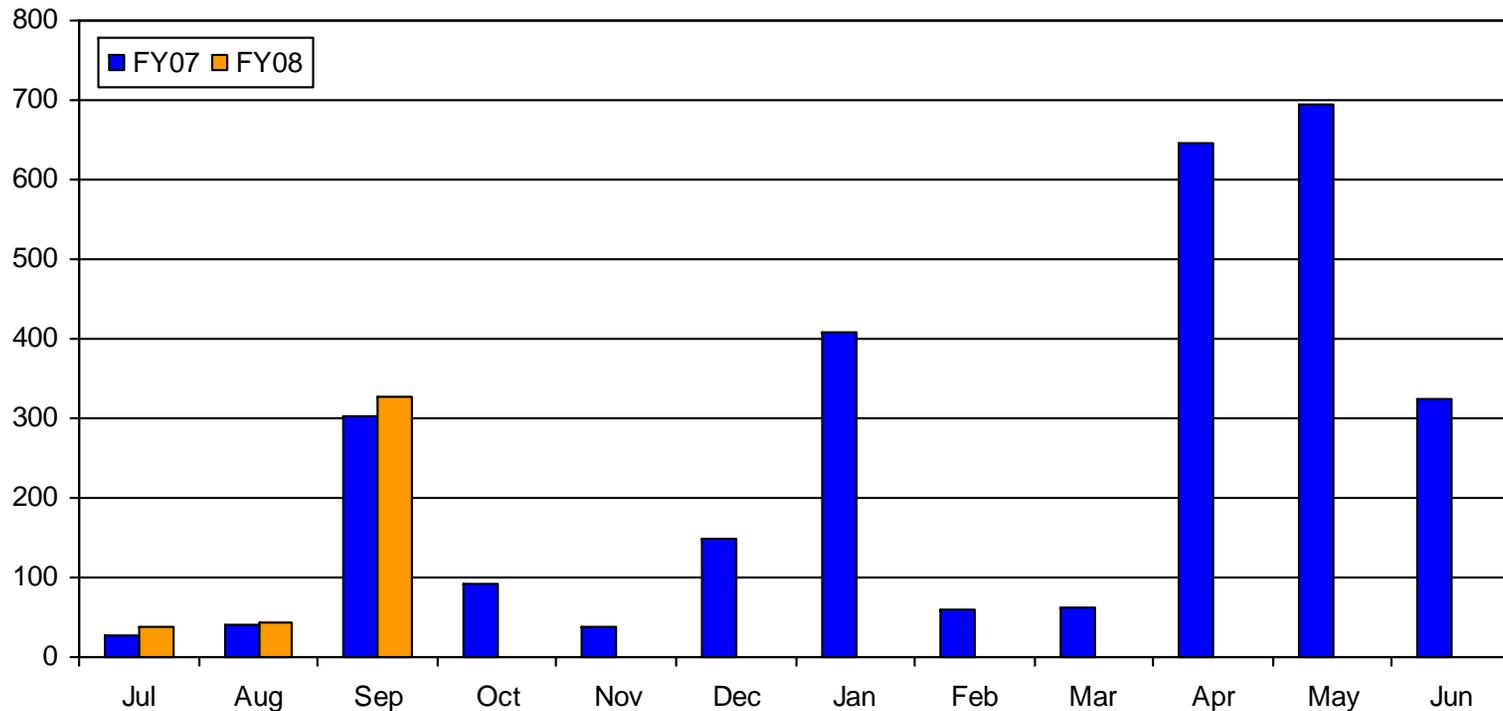
* All Other Revenue includes interest earnings which are overstated because approximately 60% of the interest for the current quarter is due to nongeneral funds and will be transferred in October.

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



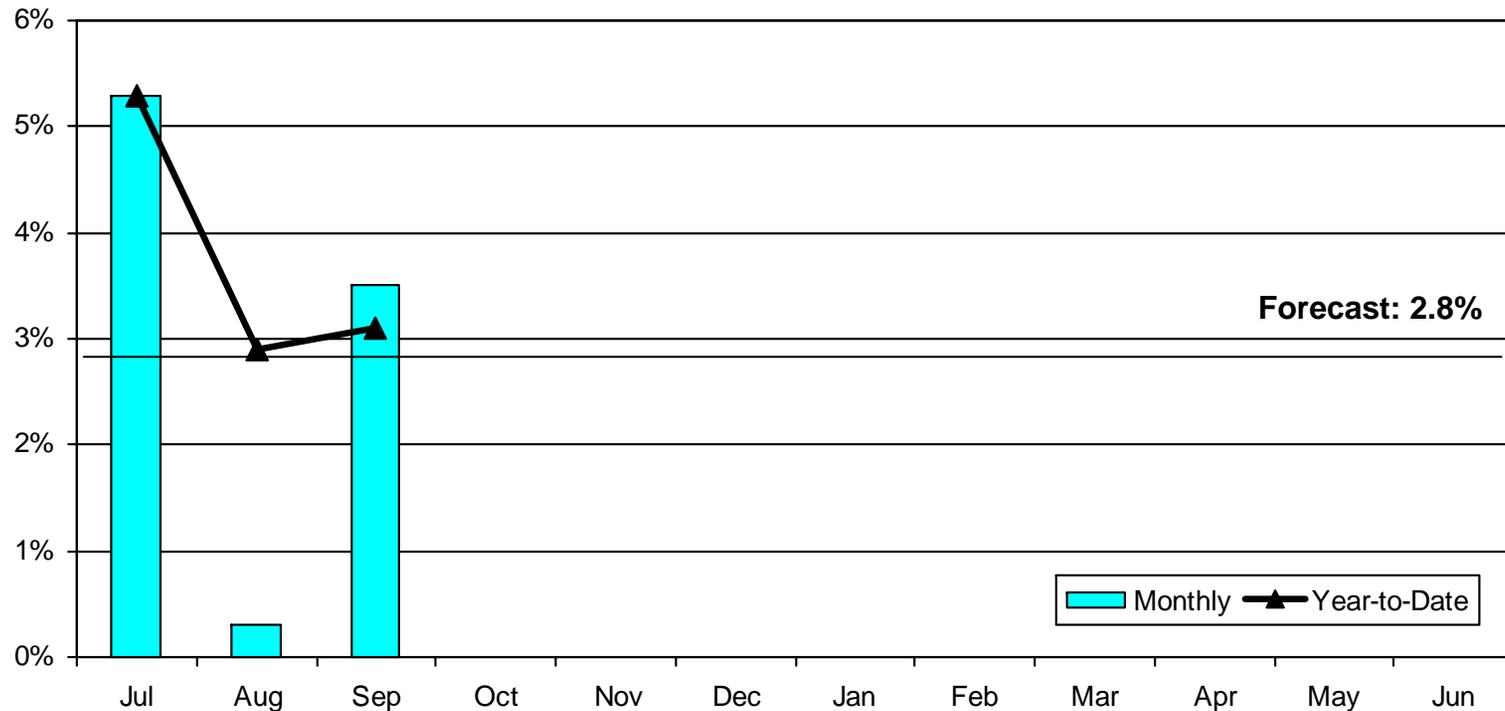
- Payroll withholding taxes grew 4.8 percent in September, in part due to one less deposit day than September of last year.
- Year-to-date growth is 4.7 percent, lagging the projected annual growth rate of 6.0 percent.

Nonwithholding Tax Collections FY07 and FY08 Monthly



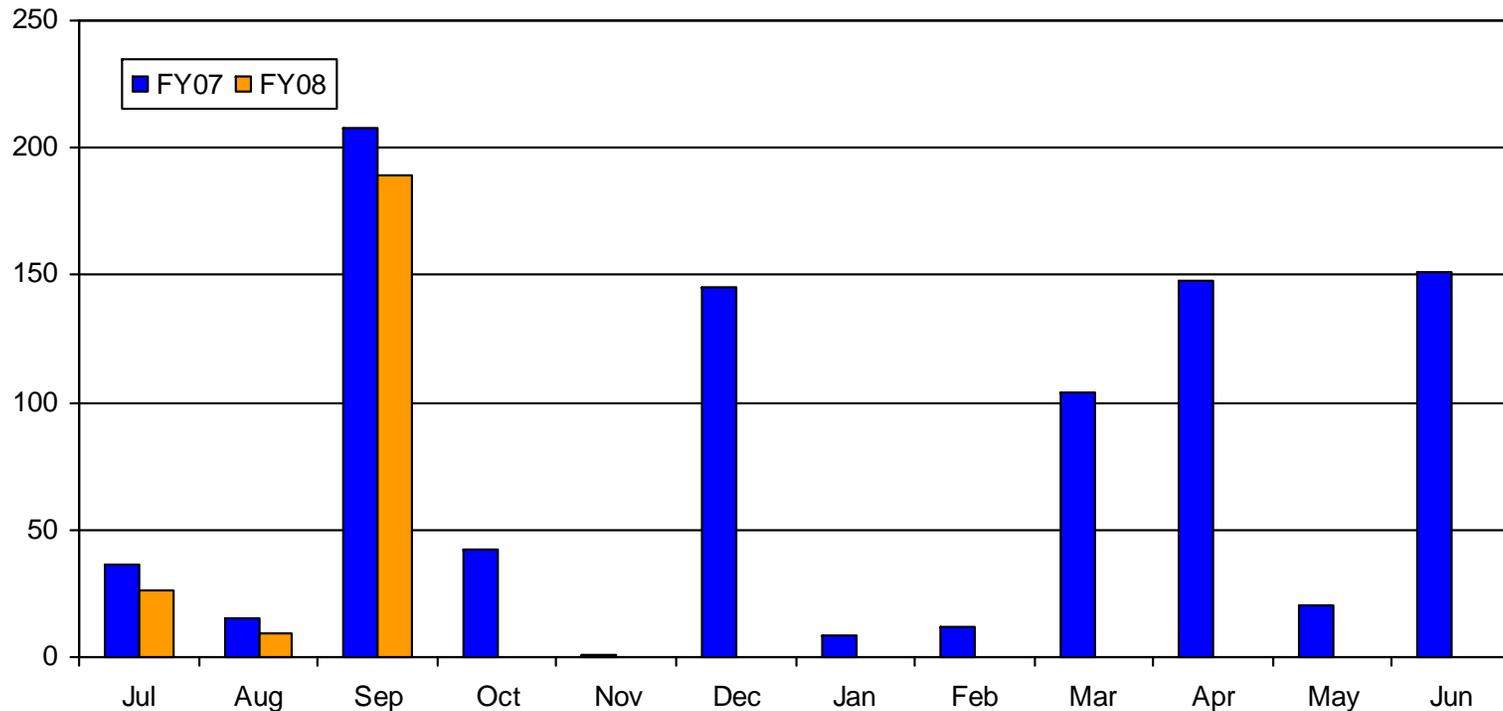
- September is the first month for significant activity since the third calendar year payment is due on September 15. Nonwithholding payments grew 8.1 percent above last September.
- Year-to-date growth is 10.7 percent, ahead of the projected annual growth rate of 6.6 percent.

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



- Collections of sales and use taxes grew 3.5 percent in September.
- On a year-to-date basis, collections of sales and use taxes have increased 3.1 percent, the slowest growth in the first quarter in 5 years.

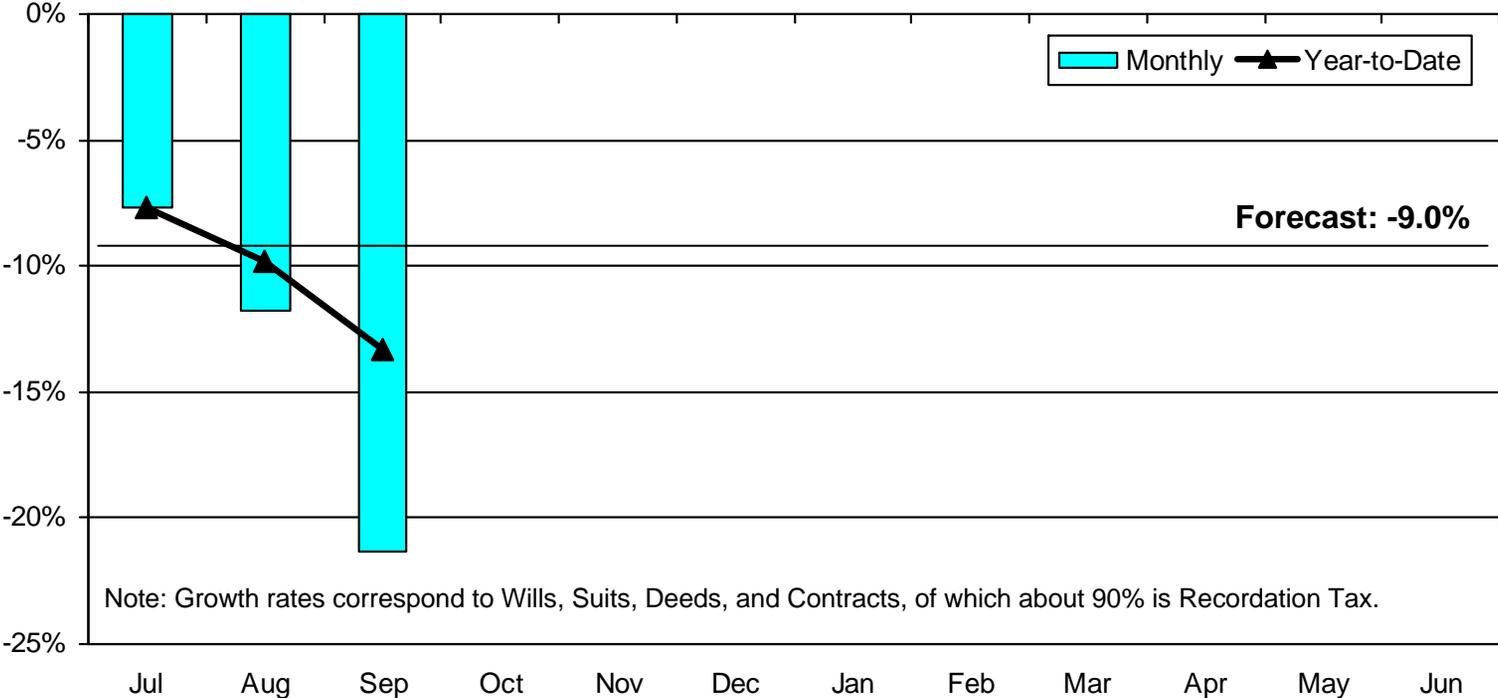
Net Corporate Income Tax Collections FY07 and FY08 Monthly



- September is the first month for significant activity since the third calendar year payment is due on September 15. Collections of net corporate income taxes fell 8.9 percent in September.
- On a year-to-date basis, net corporate income tax collections are down 13.5 percent from the first quarter of last year, close to expectations of an 18.4 percent decline.

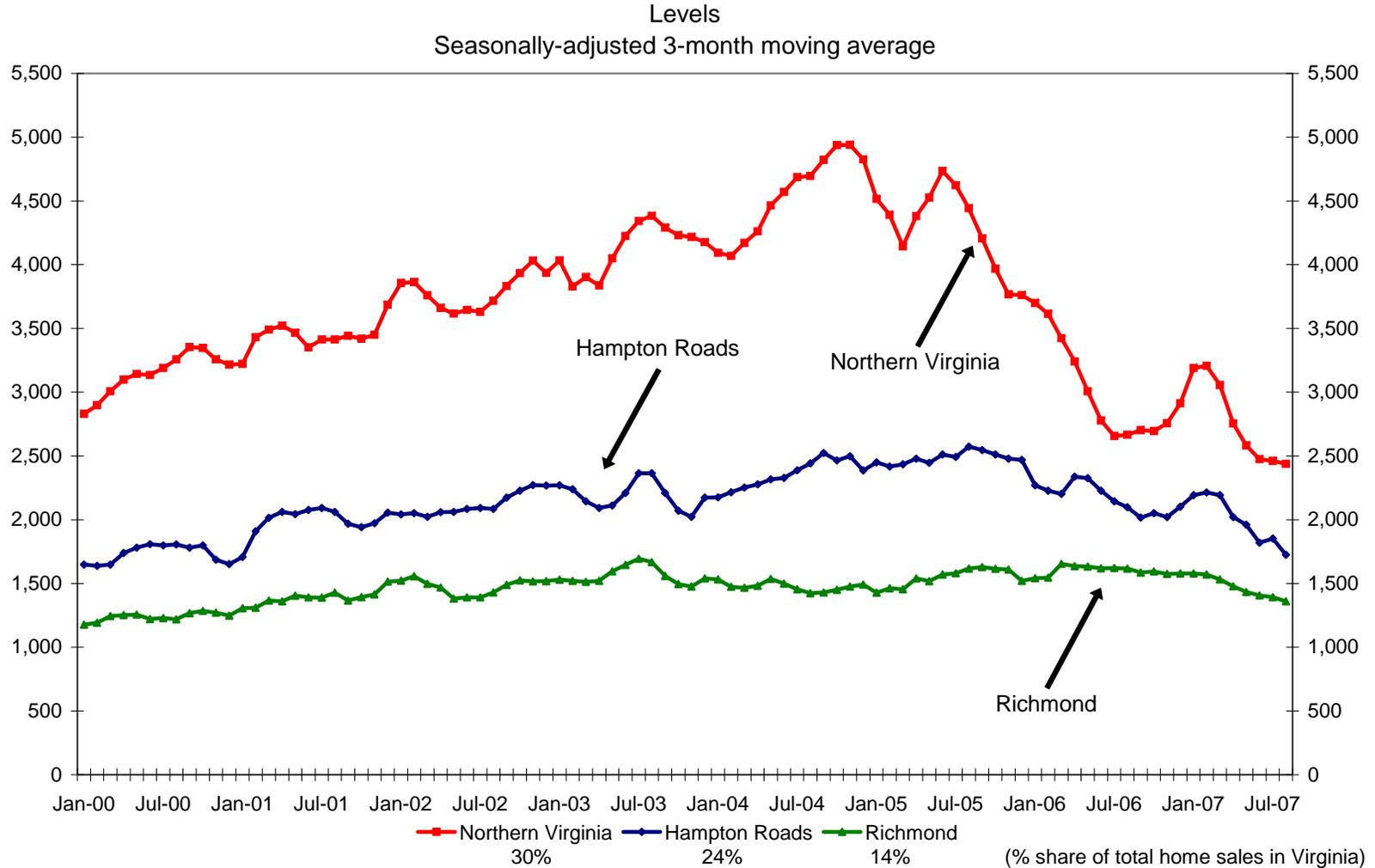
Growth in Recordation Tax Collections

FY08 Monthly and Year-to-Date



- Recordation tax collections declined 21.3 percent in September, dragging first quarter collections 13.3 percent below the prior year.
- Activity in the housing market continues to slow.

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



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

Revenue Growth is Slowing Across the Nation & State

Numerous states are experiencing revenue problems

- Florida is expected to face a \$1.5 billion shortfall due to the weakening housing market. (Florida alone collected \$2 billion in real estate taxes in 2004 – 30% of the total collected by all states.)
- Maryland and Michigan each face \$1.7 billion deficits for FY08. Both are cutting spending and raising various taxes.
- Arizona is facing a \$600 million shortfall in its current biennium budget.
- California's operating deficit is now expected to be more than \$8.6 billion – 40% higher than the \$6.1 billion gap projected as recently as August.

Virginia localities also are expected to face revenue challenges

- Fairfax County receives more than 60% of general fund revenues from real estate taxes. Residential real estate assessments declined for the first time since 1998 by -0.33 percent.
- Prince William County faces declining property tax revenues, resulting in a budget shortfall of \$8.6 million in FY08 and \$51 million in FY09.
- Virginia Beach is facing a \$30 million budget shortfall in FY09.