



# Revenue Update

## *A Briefing for the Senate Finance Committee*

**Jody M. Wagner**

Secretary of Finance

Commonwealth of Virginia

[www.finance.virginia.gov](http://www.finance.virginia.gov)

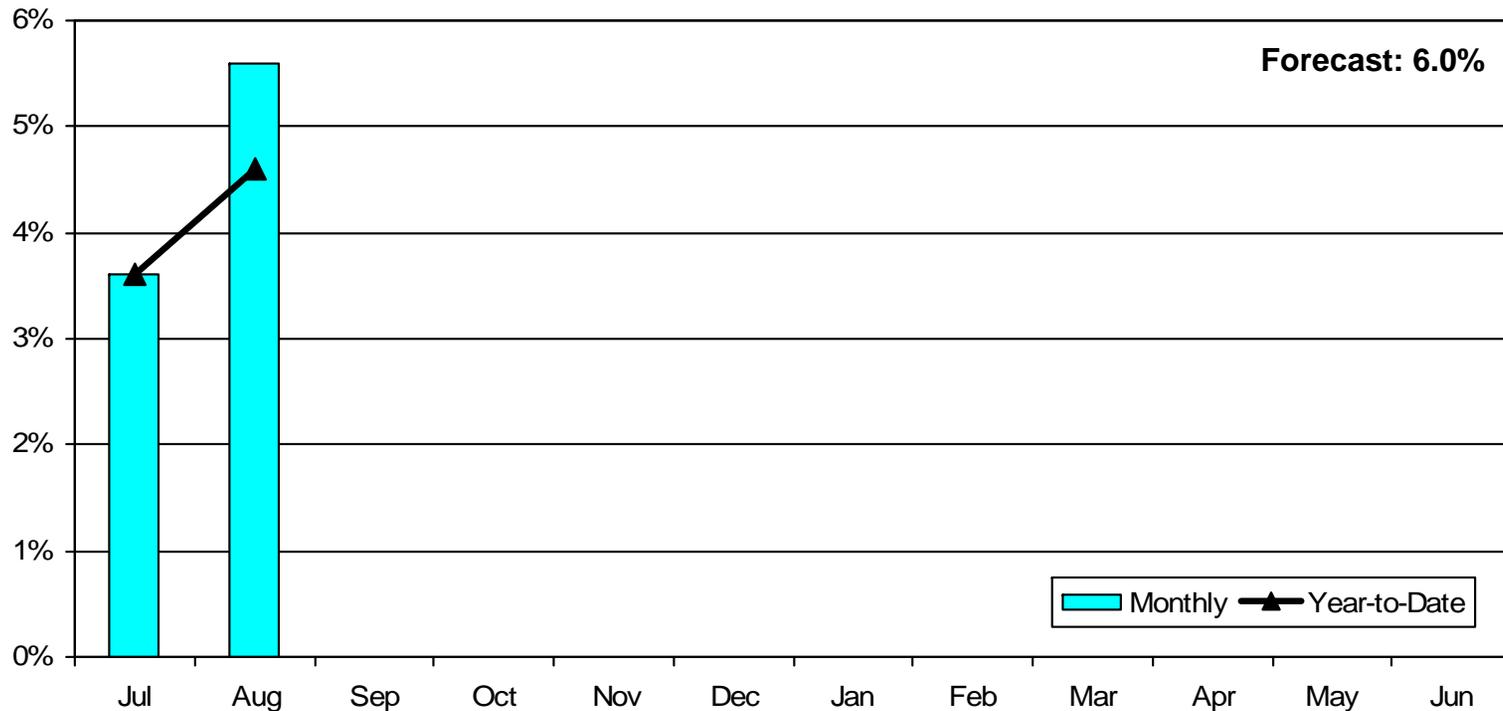
September 20, 2007

## Summary of Fiscal Year 2008 Revenue Collections

July through August

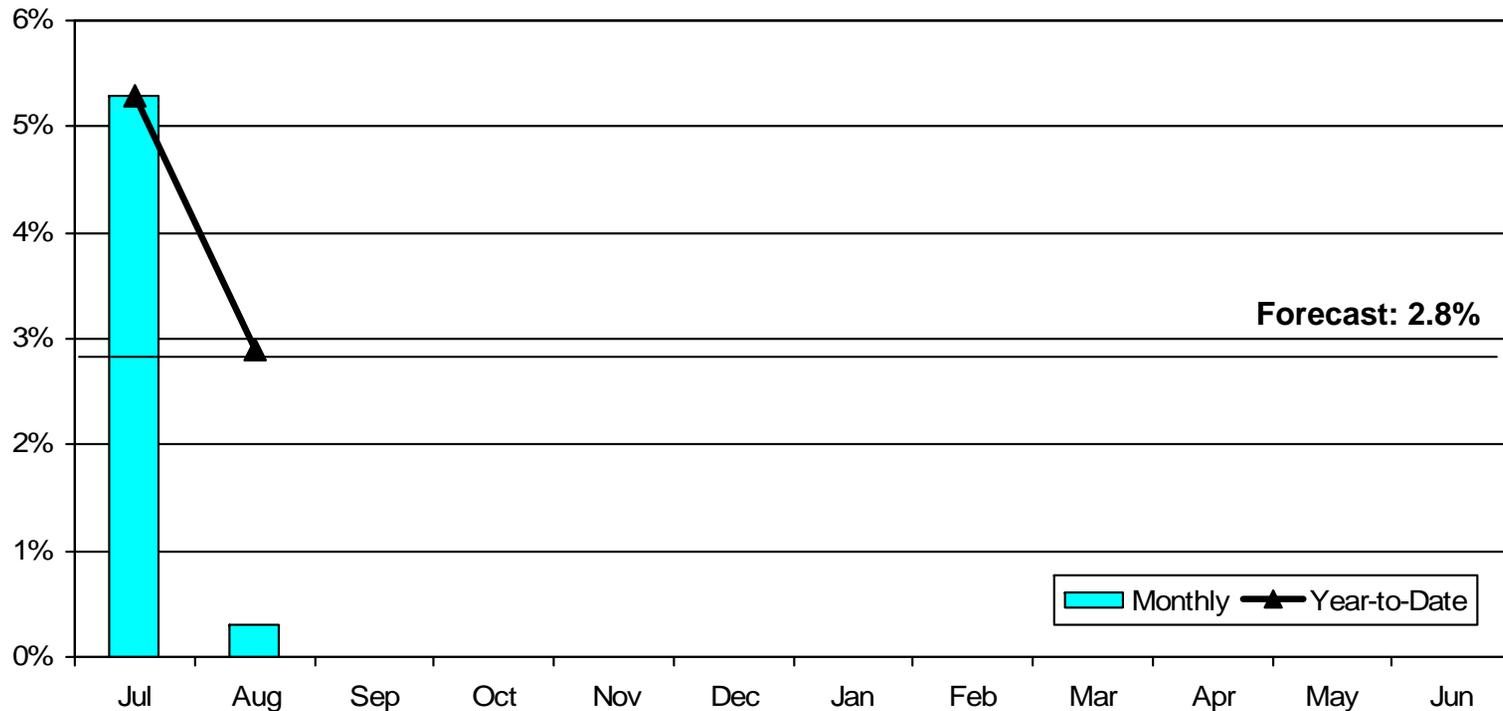
<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>August 2007 Estimate</u>	<u>Variance</u>
Withholding	56.7 %	4.6 %	6.0 %	(1.4) %
Nonwithholding	18.9	22.4	6.6	15.8
Refunds	(10.8)	(14.2)	10.5	(24.7)
Net individual	<u>64.9</u>	<u>6.5</u>	<u>5.4</u>	<u>1.1</u>
Sales	19.6	2.9	2.8	0.1
Corporate	4.5	(32.0)	(18.4)	(13.6)
Wills (Recordation)	3.3	(9.8)	(9.0)	(0.8)
Insurance	2.5	1.2	2.9	(1.7)
All Other Revenue	5.3	(1.8)	5.2	(7.0)
<b>Total</b>	<b>100.0 %</b>	<b>3.4 %</b>	<b>3.0 %</b>	<b>0.4 %</b>

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



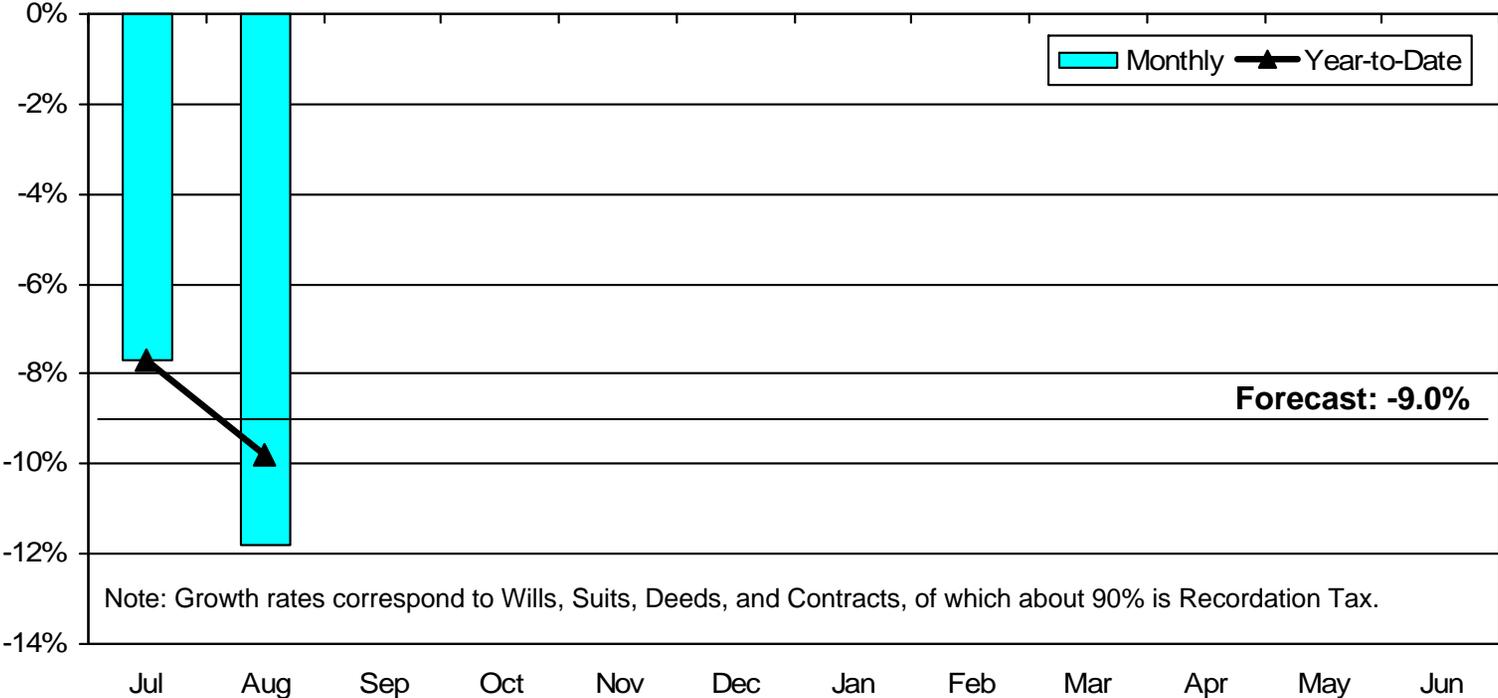
- Withholding collections grew 5.6 percent in August.
- Year-to-date withholding growth is 4.6 percent, lagging the projected annual growth rate of 6.0 percent.

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



- Collections of sales and use taxes were essentially flat in August.
- Higher energy prices and the slowdown in the housing market are slowing retail sales. Year-to-date growth in sales and use taxes is 2.9 percent for the first two months of the fiscal year.

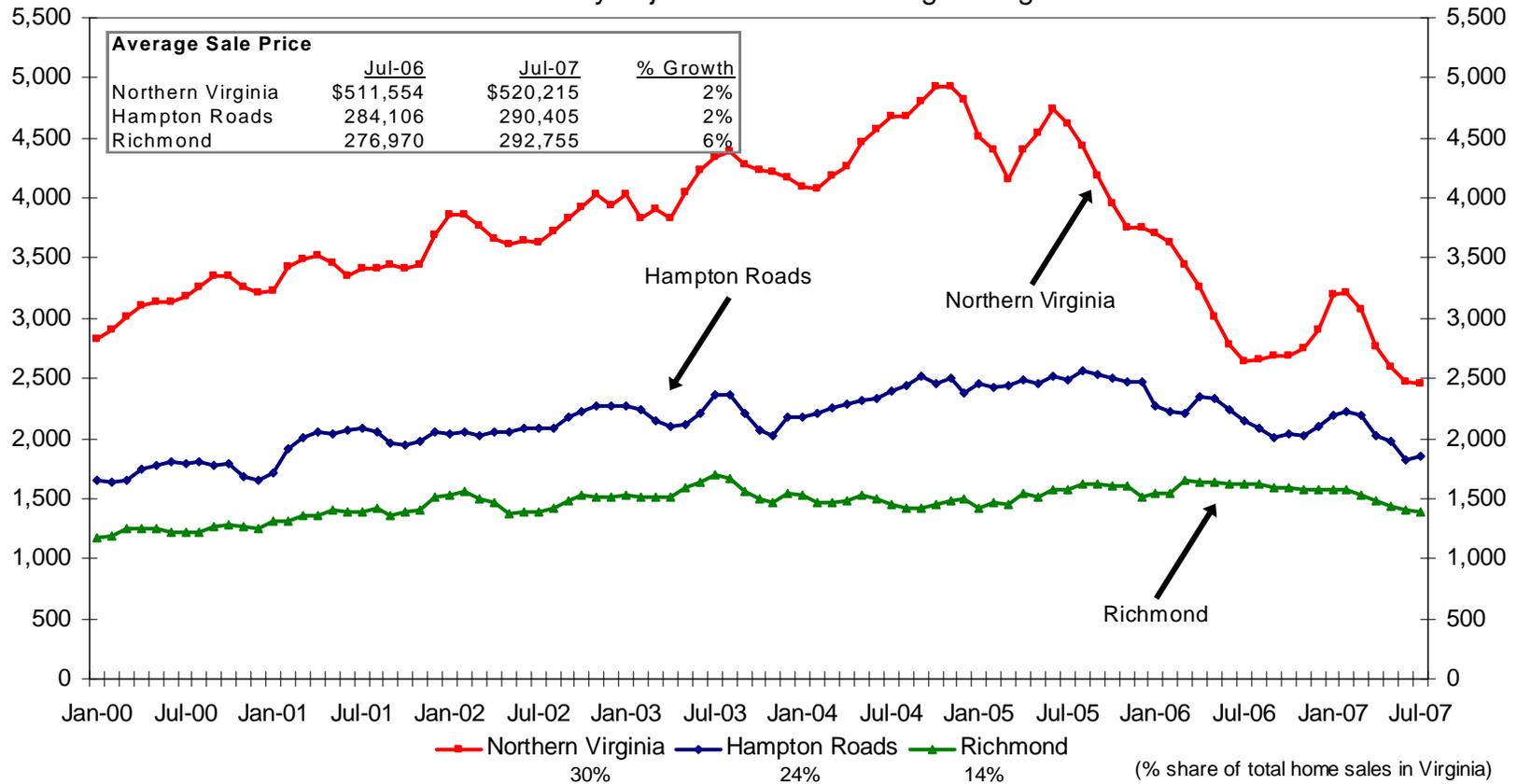
## Growth in Recordation Tax Collections FY08 Monthly and Year-to-Date



- Recordation tax collections declined 11.8 percent in August, bringing year-to-date growth for the first two months of the fiscal year to -9.8 percent. Activity in the housing market continues to slow.

## 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 from prior year levels.

## **September Collections – First Significant Data Point**

### **General Comments**

- Monthly collections will include the third calendar year estimated payment from individuals, corporations, and insurance companies due September 15<sup>th</sup>.
- First quarter collections in payroll withholding and sales taxes will provide data to determine the current direction of the economy.
- First quarter collections will be the last available data point to be incorporated into the revenue models for use in updating the revenue forecast.

# Process for Addressing the Revenue Reductions in Fiscal Year 2008

# Actions Have Been Taken to Address the Revenue Shortfall for Several Months

- May 21 – Governor advised agencies of likely revenue shortfall and suggested they avoid discretionary spending and carry forward such savings to Fiscal Year 2008
- June 1 – Agencies identified an aggregate \$66 million in savings from Fiscal Year 2007 to carry forward to Fiscal Year 2008
- June 13 – Governor convened a meeting of the Governor’s Advisory Board of Economists
- July 16 – Governor convened a special meeting of housing industry experts to gain a better understanding of the outlook for Virginia
- July 25 – Governor convened a meeting of the Governor’s Advisory Council on Revenue Estimates
- August 20 – Governor presented revised revenue forecast and announced that Secretaries will be required to achieve general fund savings of approximately five percent in their respective secretarial areas

# Actions to Address the Revenue Shortfall Are Ongoing

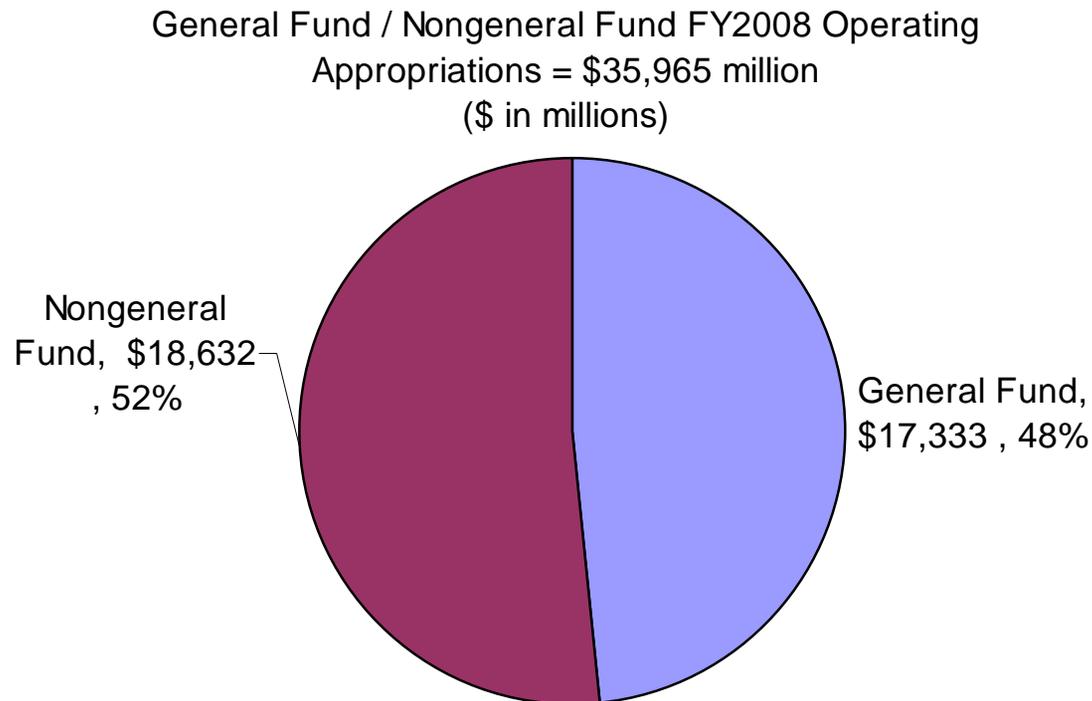
- August 20 through September 13 – Secretaries met with agencies to develop strategies for achieving reductions
- September 13 – Secretaries submitted reduction plans by agency to the Department of Planning and Budget
- September 14 through Early October – Governor will review plans and meet with Secretaries and agencies as needed to develop his approved reduction strategies
- Late September or Early October – Governor will meet with money committee leadership to discuss plans for budget reductions
- Early October – Governor will announce the final reduction plan. At the same time, the Governor will deliver to the Chairmen of the House Appropriations and Senate Finance Committees copies of the agency-based plans proposed by each Secretary

# What Actions Can Be Taken to Address the Revenue Shortfall

1. Agency-based budget reductions
2. Carryforward of unexpended appropriations from the prior year
3. Restructure or reduce capital appropriations
4. Transfer funds from the Revenue Stabilization Fund (if trigger is met)

# How Does the Budget Reduction Process Work?

# Reductions Must Come From General Fund Programs – The Starting Point Is Less Than Half of the Operating Budget

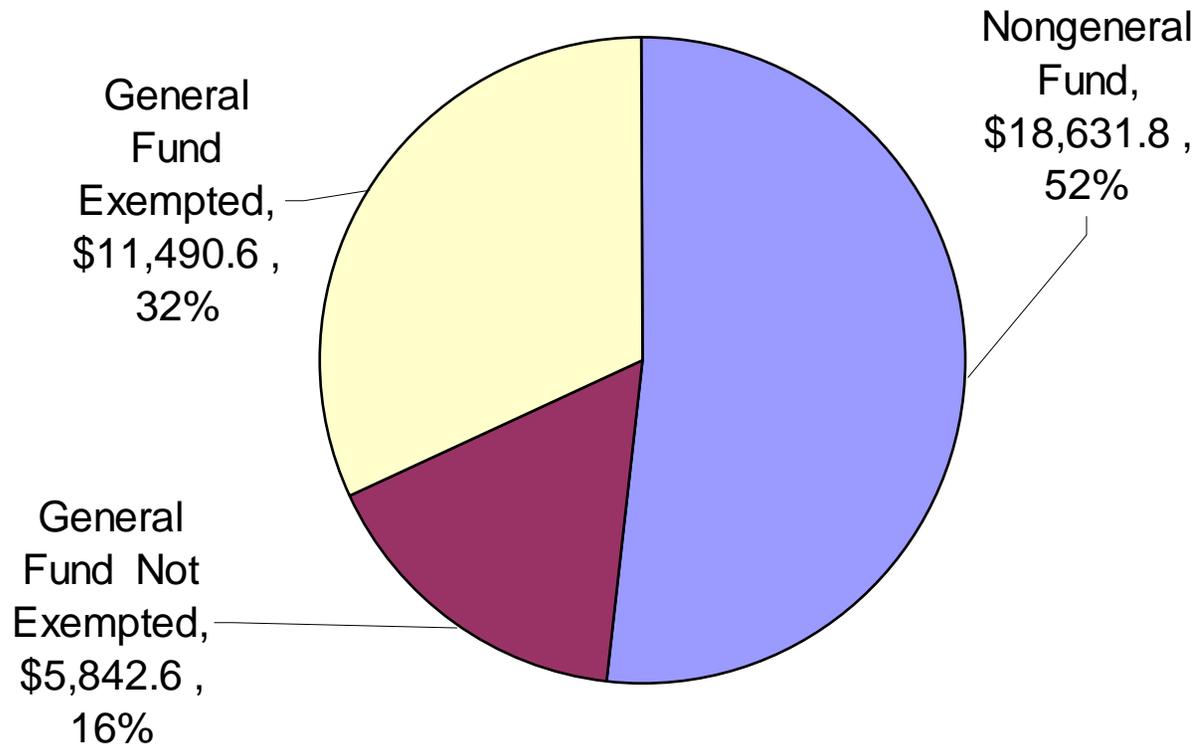


# Five Percent Required Reductions Are Not Across-the-Board Cuts

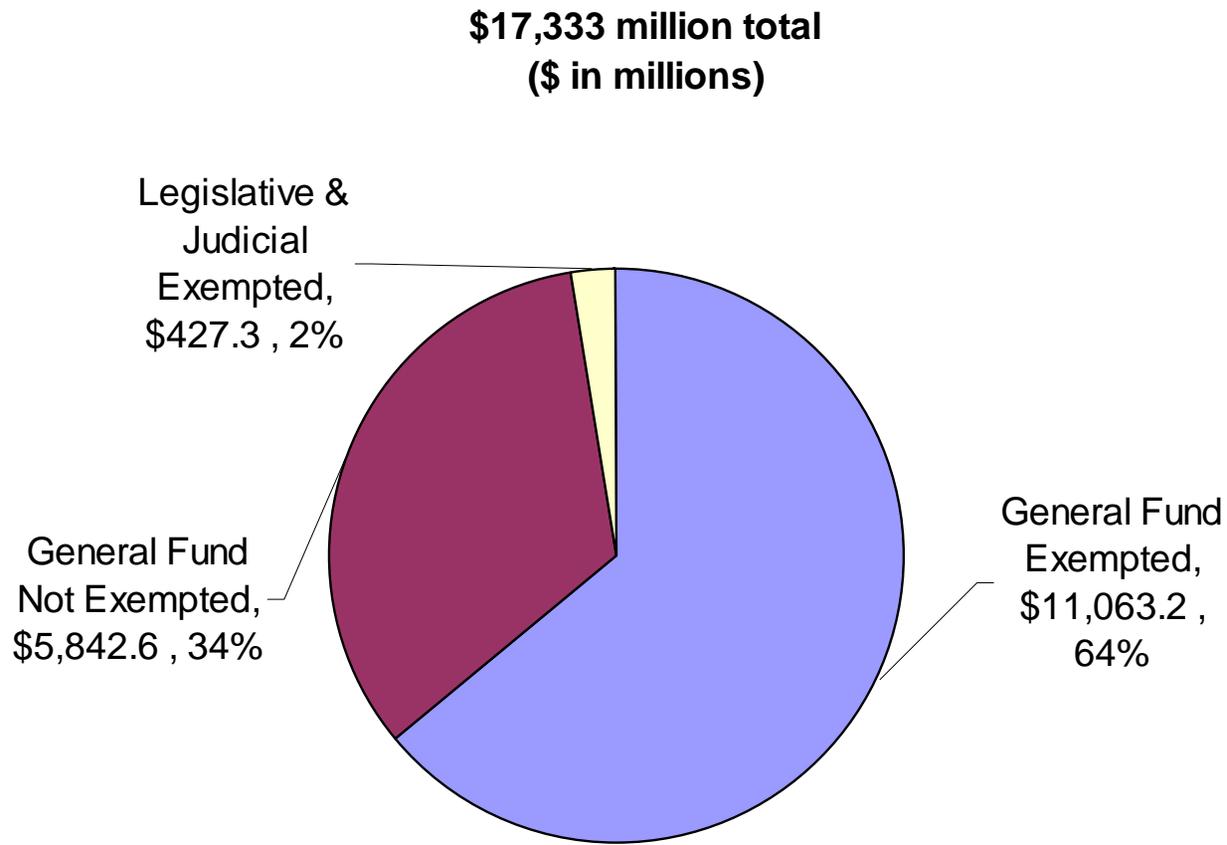
- Much of the general fund appropriations are exempted from reductions
  - Examples include:
    - Standards of Quality
    - Debt Service
    - Medicaid
    - Rent payments
    - Prison security and inmate medical services
- Secretaries were not required to apply the reductions evenly to their agencies

# 84 Percent of the Budget Is Not Available to Address a General Fund Shortfall

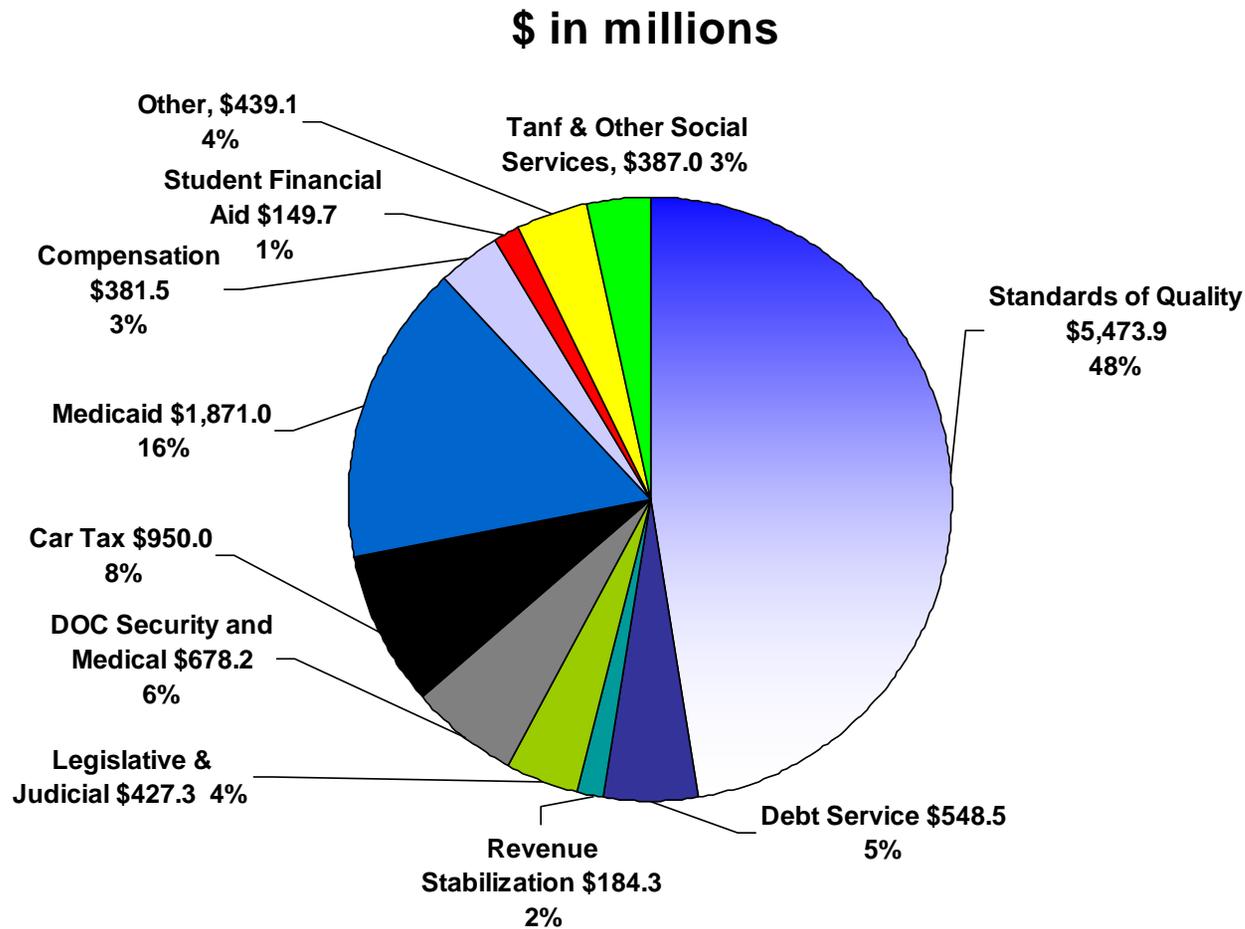
**\$ in millions**



# Within General Fund Programs, Nearly Two-Thirds of the Appropriations Are Exempt From the Budget Reductions

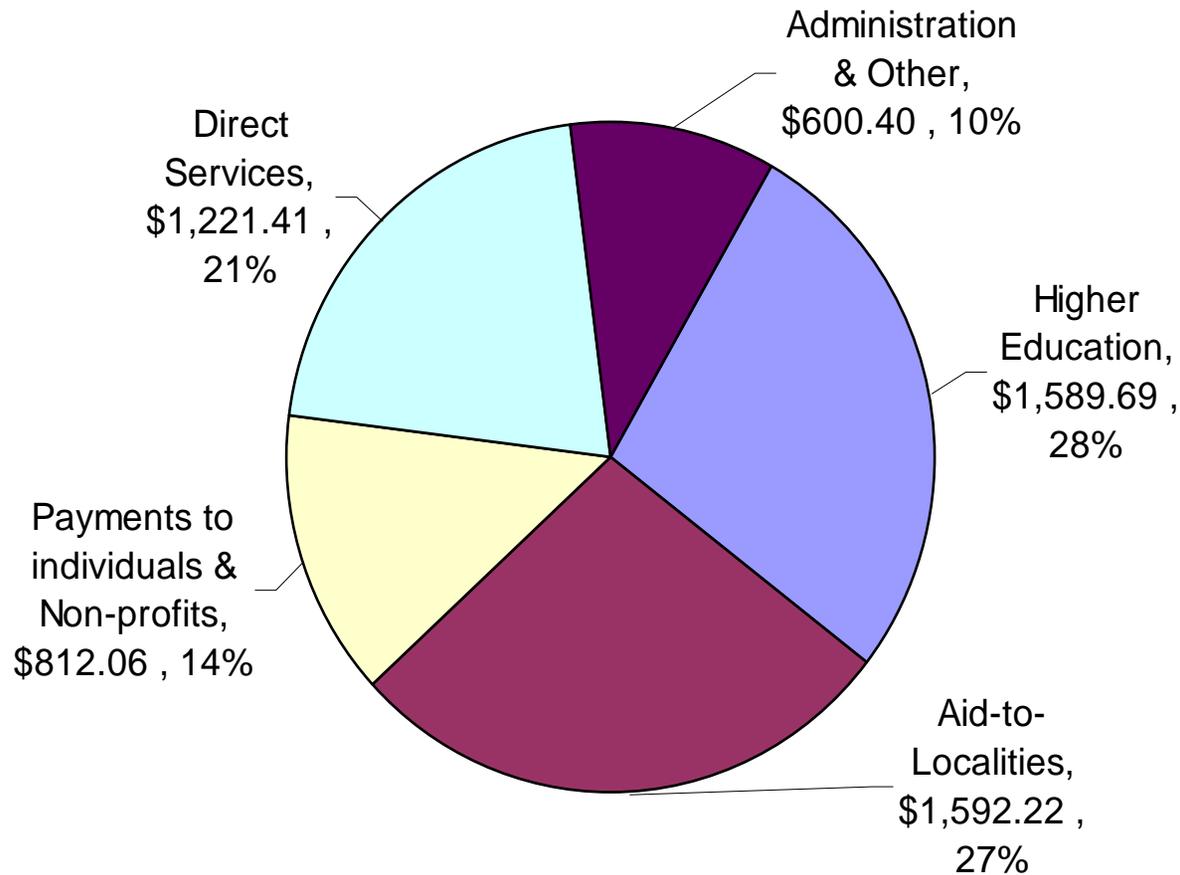


# Exempted Appropriations Total \$11.5 billion



# Appropriations That Are Available for Budget Reductions - \$5.8 billion

\$ in millions



# What You Can Expect to See in the Reduction Plan

Note: The Governor has not made any decisions at this time. He is reviewing the proposed actions.

- Examples of good government
  - Efficiency actions
  - Productivity enhancements
  - Renegotiation of contracts
- Creative approaches
  - Use of technology
  - Agencies combining resources
    - use of service bureaus
    - reduced real estate costs

# What You Can Expect to See in the Reduction Plan – *continued*

- Creative approaches – *continued*
  - Workforce and duty realignments
  - Bring outsourced services in-house
- Impacts to programs and services
  - Reductions in staff training
  - Instituting or increasing fees
  - Some layoffs are likely
  - Frequency of regulatory inspections may be reduced
  - Some agencies have not grown much after the budget reductions in 2003

# Additional Actions Under Consideration to Close the Revenue Gap

- Carryforward of unexpended balances from the prior fiscal year
- Restructuring the current appropriations for capital outlay
- Potential use of the Revenue Stabilization Fund – the trigger has been met and the fund may be used in fiscal year 2008

# What Can We Use the Revenue Stabilization Fund For?

- |   |     |
|---|-----|
| 1. A shortfall in current enacted budget                                | YES |
| 2. A projected severe downturn or recession in economy in next biennium | NO  |
| 3. An emergency situation (i.e. natural disaster or terrorist attack)   | NO  |

# Even With a FY2008 Withdrawal, the Fund Will Still Reach Its Highest Balance Ever by the End of the Next Biennium

## Revenue Stabilization Fund

