



Revenue and Budget Update

A Briefing for the Senate Finance Committee

Richard D. Brown
Secretary of Finance
Commonwealth of Virginia
www.finance.virginia.gov

June 17, 2010

Topics for Discussion

- National and State Economic Indicators
- General Fund Revenue Collections for May and YTD Fiscal Year 2010
- Extension of Federal Medical Assistance Percentage (FMAP)

National and State Economic Indicators

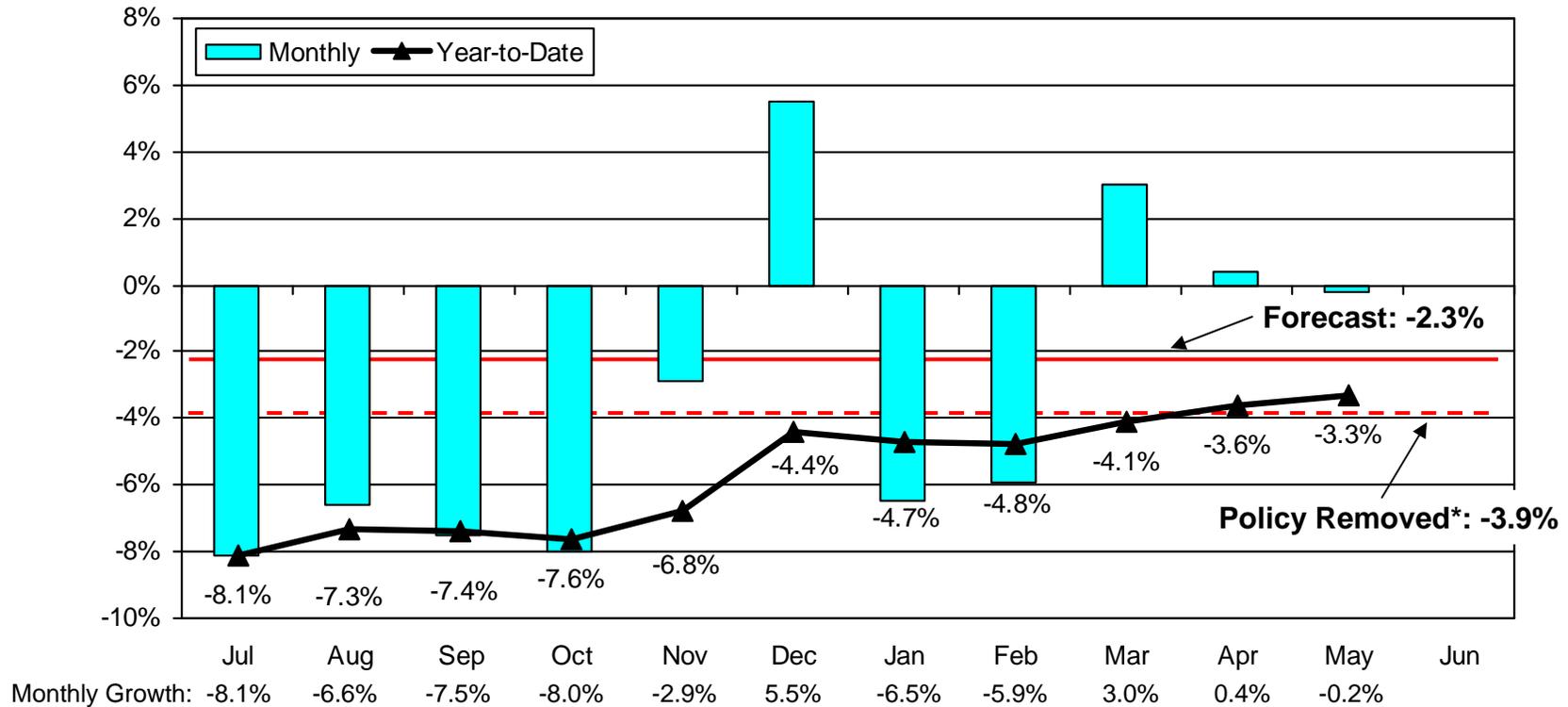
- Current national indicators depict an expanding economy, although growth – particularly in the labor market – is expected to remain weak.
- According to the second estimate, real GDP grew 3.0 percent at an annualized rate in the first quarter of 2010, its third consecutive increase.
- The labor market stalled in May after two months of solid gains. Although payroll employment grew by 431,000 jobs in May, 411,000 were temporary federal census jobs.
 - This follows gains of 290,000 in April and 208,000 in March.
- The national unemployment rate fell by 0.2 to 9.7 percent in May as the labor force contracted.
- In Virginia, the year-over-year percent change in employment remains negative; however, the rate of job losses continues to slow. Payroll employment in the Commonwealth fell 0.5 percent in April from April of last year.
 - Northern Virginia posted a modest gain of 0.7 percent, Hampton Roads fell 0.9 percent, and Richmond-Petersburg fell 1.9 percent from April of last year.
- The unemployment rate in Virginia fell from 7.6 percent to 6.7 percent in April, significantly below the peak of 7.8 percent in February (the highest rate since February 1983).

National and State Economic Indicators

- The manufacturing sector continues to expand. The Institute of Supply Management index fell slightly from 60.4 to 59.7, marking the tenth consecutive month above the expansionary threshold of 50.0.
- The Conference Board's index of leading indicators fell for the first time in more than a year in April, declining 0.1 percent to 109.3.
 - The slight decline in the index suggests that the recovery will continue at a slower pace.
- The Conference Board's index of consumer confidence jumped 5.6 points in May, following a 5.4 gain in April and a 5.9 gain in March.
 - Although the index reached its highest level since March 2008, the index remains at the very low level of 63.3 and is consistent with a recession.
- Inflation remains low – the CPI decreased 0.1 percent in April from the previous month.
 - Core inflation (excluding food and energy prices) was unchanged for the second consecutive month and stands 0.9 percent above April of last year.
- The Virginia Leading Index rose 0.2 percent in April. Two of the three components contributed to the increase – auto registrations and building permits. Initial claims for unemployment increased 5.1 percent, contributing negatively to the index.
 - The Leading Index rose in eight of the eleven Virginia metro areas in April, with the exception of Hampton Roads, Bristol, and Harrisonburg.

Growth in Total General Fund Revenue Collections

FY10 Monthly and Year-to-Date

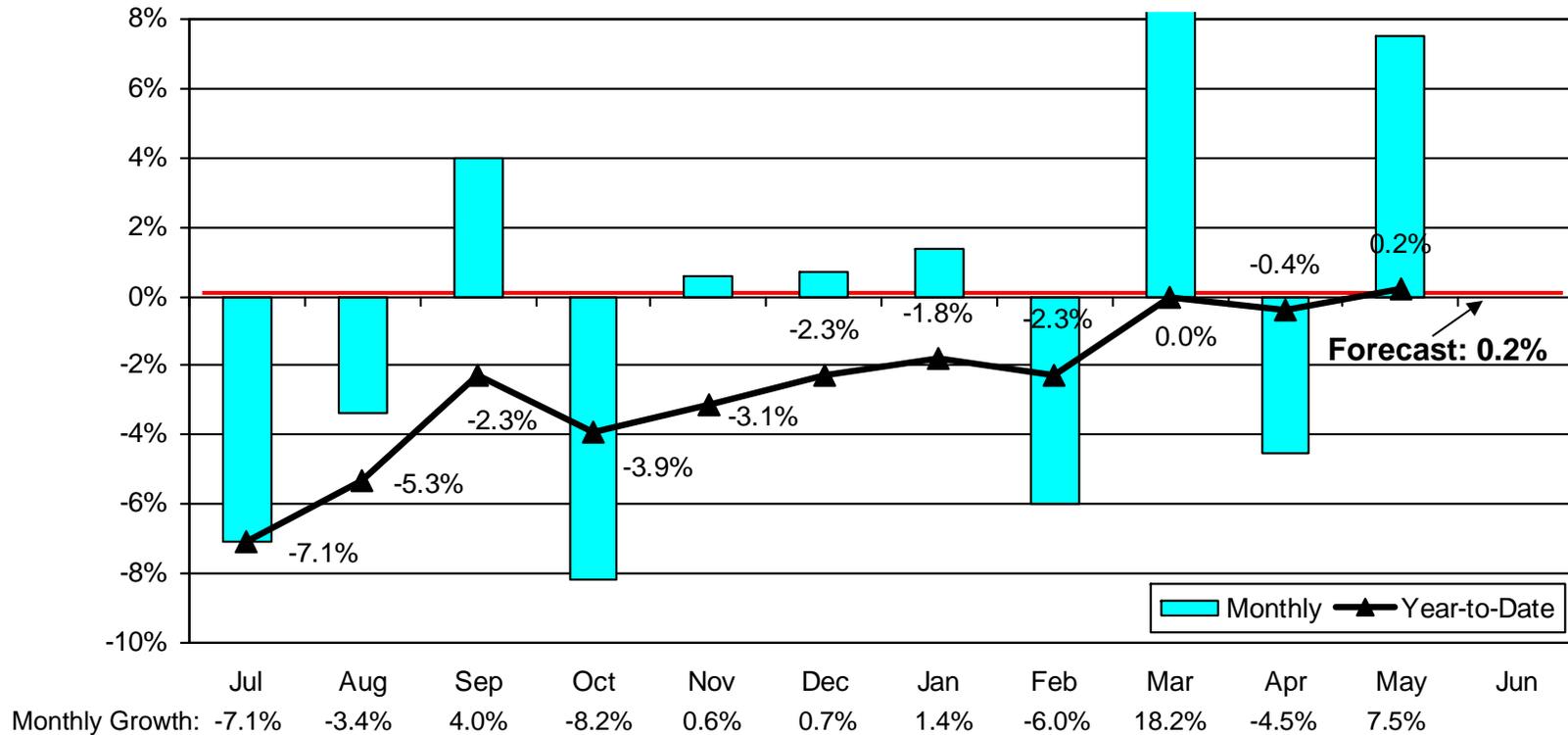


- Total general fund revenue collections fell 0.2 percent in May.
- On a year-to-date basis, total revenues fell 3.3 percent, trailing the revised annual forecast of a 2.3 percent decline.

* Major policy adjustment is the June accelerated sales tax program.

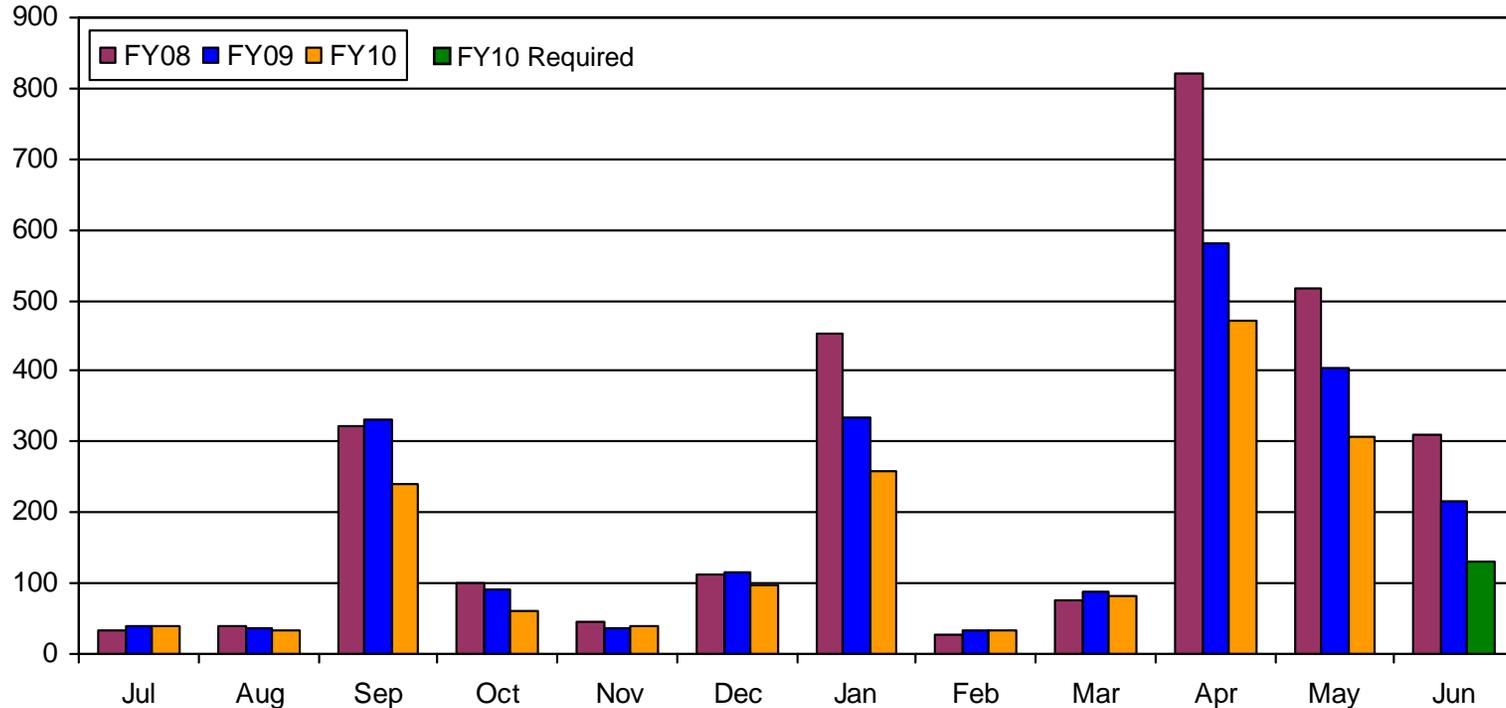
Growth in Withholding Tax Collections

FY10 Monthly and Year-to-Date



- Collections of payroll withholding taxes grew 7.5 percent in May.
- Year-to-date withholding collections grew 0.2 percent compared with the same period last year, equal to the projected annual growth rate.

Nonwithholding Tax Collections FY08-FY10 Monthly



- Taken together, nonwithholding collections in April and May were down 20.8 percent over the same period last year.
- Estimated payments are due in June and \$131.4 million is needed to meet the annual estimate. Last year, \$217.1 million was received in June.

Individual Income Tax Refunds

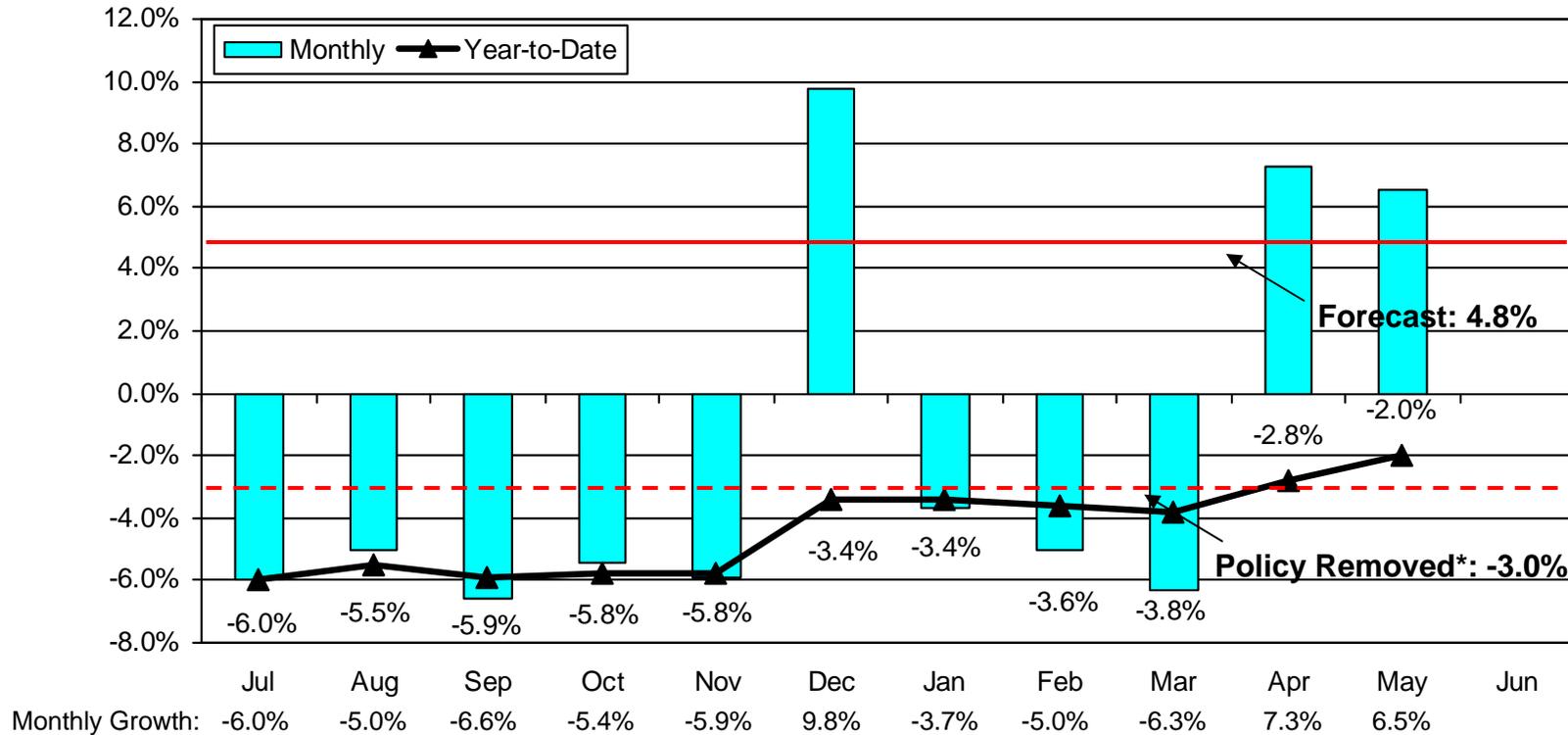
- Through May, TAX issued \$1.9 billion in refunds compared with \$1.8 billion in the same period last year, a 3.6 percent increase, compared with the revised annual estimate of a 2.0 percent increase.
- TAX can issue another \$97.0 million in refunds in June and meet the annual estimate. Last year, \$124.2 million was issued in June.

Net Individual Income Tax

- Through May, collections of net individual income tax fell 5.4 percent from the same period last year, close to the revised annual estimate of a 5.5 percent decline.

Growth in Sales Tax Collections

FY10 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting April sales, rose 6.5 percent in May, after a 7.3 percent increase in April.
- On a year-to-date basis, collections have fallen 2.0 percent, slightly ahead of the policy-adjusted forecast of a 3.0 percent decline.

* Major policy adjustment is the June accelerated sales tax program.

Net Corporate Income Tax Collections

- Year-to-date collections are up 27.2 percent from the same period last year, ahead of the annual estimate of 12.8 percent growth.
- The second estimated payment for tax year 2010 is due June 15. About \$82 million is needed to meet the annual forecast in this source. Last year, \$138.0 million was collected in June.

Recordation and Insurance Premiums Tax

Recordation

- On a year-to-date basis, collections are down 6.6 percent, close to the forecast of a 4.9 percent decline.

Insurance

- On a year-to-date basis, collections of insurance premiums tax have increased 3.3 percent, ahead of the revised annual estimate of a 4.9 percent decline.

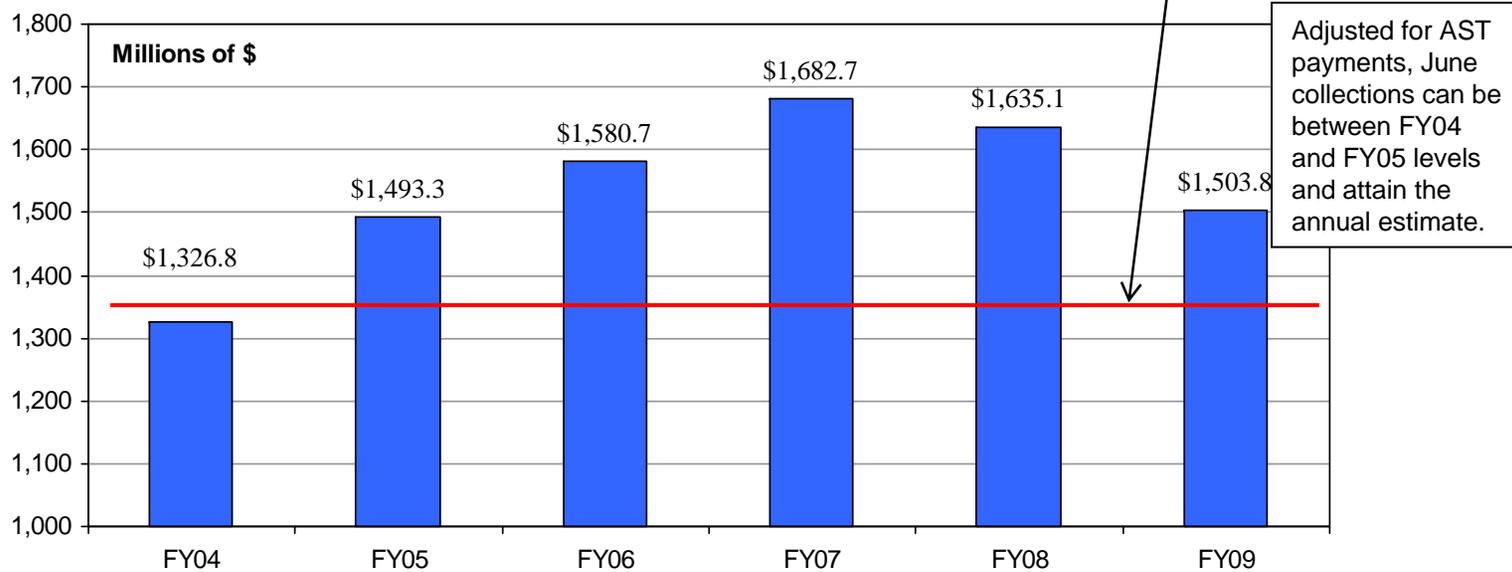
Summary of Fiscal Year 2010 Revenue Collections

July through May

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>Official Estimate</u>	<u>Variance</u>
Withholding	65.4 %	0.2 %	0.2 %	0.0 %
Nonwithholding	13.0	(19.7)	(21.5)	1.8
Refunds	(14.3)	3.6	2.0	1.6
Net Individual	64.1	(5.4)	(5.5)	0.1
Sales	21.8	(2.0)	4.8	(6.8)
Corporate	5.2	27.2	12.8	14.4
Wills (Recordation)	2.1	(6.6)	(4.9)	(1.7)
Insurance	1.7	3.3	(4.9)	8.2
All Other Revenue	5.1	(5.0)	0.0	(5.0)
Total	100.0 %	(3.3) %	(2.3) %	(1.0) %

June Collections Required to Meet Annual Estimate

<u>Fiscal Year 2010</u>		<u>\$ in Millions</u>
General Fund Revenue Forecast		\$ 13,988.6
Year-to-Date May Collections		12,394.4
<u>Projected June AST Payments</u>		<u>227.7</u>
June Collections Required to Meet Estimate	\$	1,366.5



* FY04 and FY05 have AST payments removed.

Extension of Federal Medical Assistance Percentage (FMAP) & Federal Health Care Reform

- The Federal Stimulus Program (ARRA) increased the Medicaid federal reimbursement percentage for all states for the period October 1, 2008 to December 31, 2010.
 - Federal legislation proposes extending the more generous FMAP federal rate for another 6 months (through June 30, 2011) resulting in an additional \$417 million savings for Virginia Medicaid.
- Approved budget has a \$417 million contingent appropriation to distribute additional FMAP revenue, if enacted.
 - Budget language authorizes adjustments to approved contingent appropriations to remain within any additional FMAP extension.
- 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).
 - MOE requirements will be funded in FY 2011 and FY 2012 if the FMAP extension is enacted. (The contingent appropriation will satisfy the requirements of the MOE if FMAP is extended).
- Without the FMAP extension, Virginia has to address a shortfall of \$165.3 million in the 2010-12 budget.

Restorations Contingent on FMAP Extension and Required for Health Care Reform

Restorations or Spending Items (Federal Health Reform MOE Items Shaded)	FY 2011	FY 2012	FY 2011	FY 2012
Freeze enrollment in Medicaid community-based waivers in CY 2011	\$3,745,802	\$0	\$3,745,802	\$0
Reduce income limits for SSI from 300 to 275% of SSI	\$16,870,746	\$0	\$16,870,746	\$0
Implement a provider tax on ICF-MR facilities	\$4,168,066	\$0	\$0	\$0
Adjust for Impact of Introduced Budget Reductions on GF	\$14,452,315	\$0	\$0	\$0
Adjust for Impact of Conference Amendments on GF	\$6,522,348	\$0	\$0	\$0
FAMIS eligibility restored to 200 percent of poverty	\$0	\$19,295,228	\$0	\$19,295,228
Inflation increase of medically needy income limits	\$0	\$563,081	\$0	\$0
Environmental Modifications / Assistive Technology Limits	\$276,385	\$0	\$0	\$0
Indigent care funding for teaching hospitals	\$7,100,000	\$7,100,000	\$0	\$0
Long-stay hospital rates	\$449,298	\$522,102	\$0	\$0
Podiatry services	\$0	\$487,500	\$0	\$0
Out-of-state inpatient hospital reimbursement	\$2,253,621	\$0	\$0	\$0
Inpatient hospital reduction	\$14,609,580	\$24,164,264	\$0	\$0
Outpatient hospital reduction	\$6,928,731	\$10,802,339	\$0	\$0
Nursing facility operating and capital rates	\$12,935,953	\$16,334,061	\$0	\$0
Physician rates	\$8,777,395	\$14,714,275	\$0	\$0
Dental rates	\$1,473,404	\$2,334,840	\$0	\$0
Pharmacy dispensing fee	\$0	\$523,579	\$0	\$0
Eligibility reduction for Aged, Blind and Disabled	\$0	\$36,167,138	\$0	\$36,167,138
Auxiliary grant rate - Medicaid impact	\$0	\$623,520	\$0	\$623,520
Eligibility reduction of SSI Group from 300 to 250%	\$0	\$72,881,622	\$0	\$72,881,622
Medicaid waiver rates, freeze and limit on respite care	\$23,349,291	\$52,510,241	\$0	\$13,310,010
Pharmacy reimbursement	\$819,468	\$927,000	\$0	\$0
Optometry services	\$344,954	\$418,500	\$0	\$0
Residential psychiatric treatment services	\$1,321,092	\$0	\$0	\$0
Add 250 new Intellectual Disability wavier slots	\$5,407,821	\$7,779,375	\$0	\$0
Hospital capital rates	\$1,609,968	\$2,649,535	\$0	\$0
School revenue maximization	\$0	\$592,869	\$0	\$0
Mental health therapeutic day treatment rates	\$1,494,140	\$0	\$0	\$0
Community mental health services for children	\$2,100,000	\$2,100,000	\$0	\$0
Centers for Independent Living	\$469,454	\$0	\$0	\$0
Local departments of social services	\$1,641,894	\$4,642,133	\$0	\$0
Auxiliary grant reduction	\$0	\$2,413,152	\$0	\$2,413,152
Child Welfare Services	\$3,000,000	\$0	\$0	\$0
Chore and companion services	\$1,000,000	\$0	\$0	\$0
Other purchased services for local departments of social services	\$1,000,000	\$0	\$0	\$0
General relief	\$2,400,000	\$2,400,000	\$0	\$0
Healthy Families	\$1,368,195	\$0	\$0	\$0
Total	\$147,889,921	\$282,946,354	\$20,616,548	\$144,690,670

Biennial Total

\$430,836,275

\$165,307,218

Extension of Federal Medical Assistance Percentage (FMAP) & Federal Health Care Reform

- The U.S. Senate has a proposal that would extend the FMAP provision six months through June 2011.
- If FMAP is extended, approved provisions in budget regarding restoration and reallocation will be implemented.
- Otherwise, approved reductions in approved budget will take effect.
 - Will require that FY 2011 and FY 2012 costs of federal health care reform -- \$165.3 million -- be addressed during fall 2010 budget development.

Next Steps

- CARS Preliminary FY10 Revenue Report – July 9, 2010
- CARS Final FY10 Revenue Report – July 27, 2010
- Presentation to Joint Money Committees – August 19, 2010