



# Revenue Update

## *A Briefing for the House Appropriations 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.

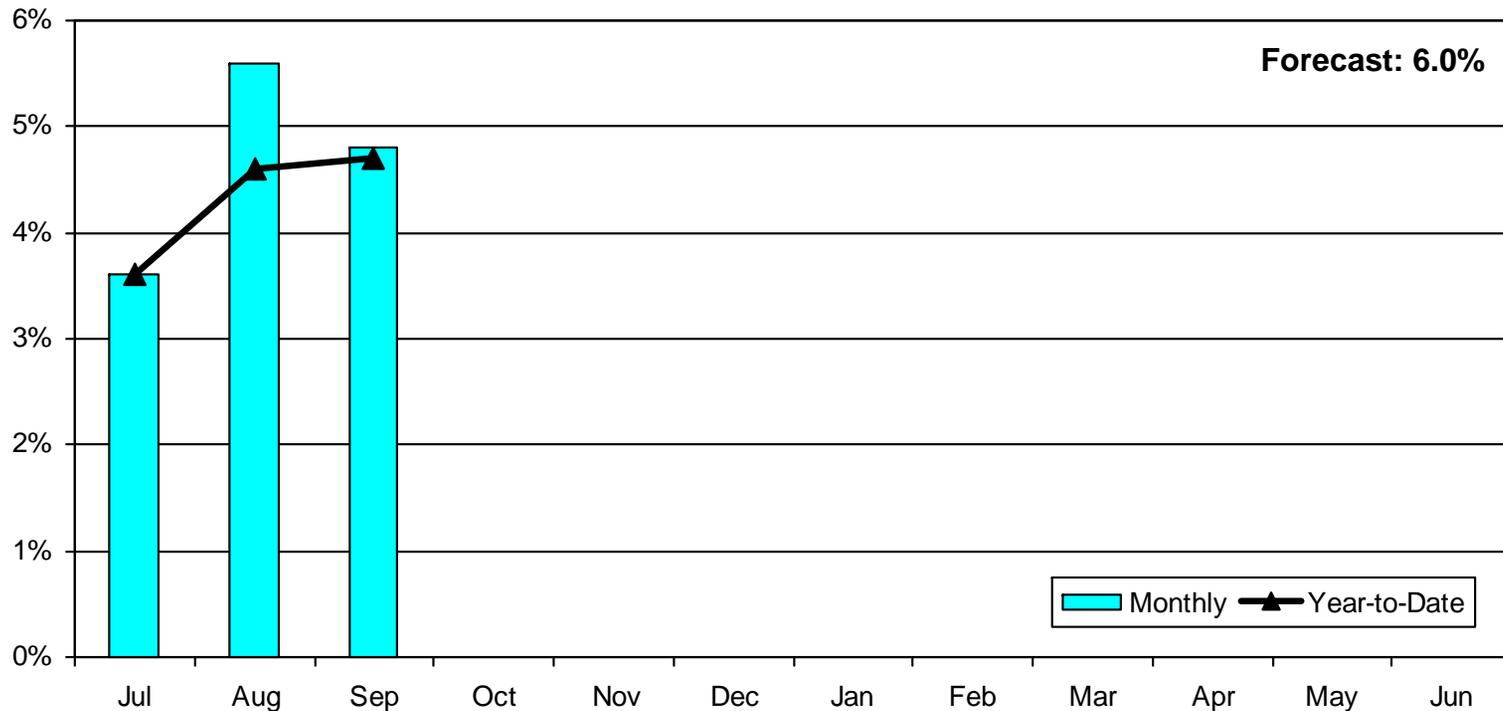
## Summary of Fiscal Year 2008 Revenue Collections

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	<u>64.9</u>	<u>7.1</u>	<u>5.4</u>	<u>1.7</u>
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)
<b>Total</b>	<b>100.0 %</b>	<b>3.6 %</b>	<b>3.0 %</b>	<b>0.6 %</b>

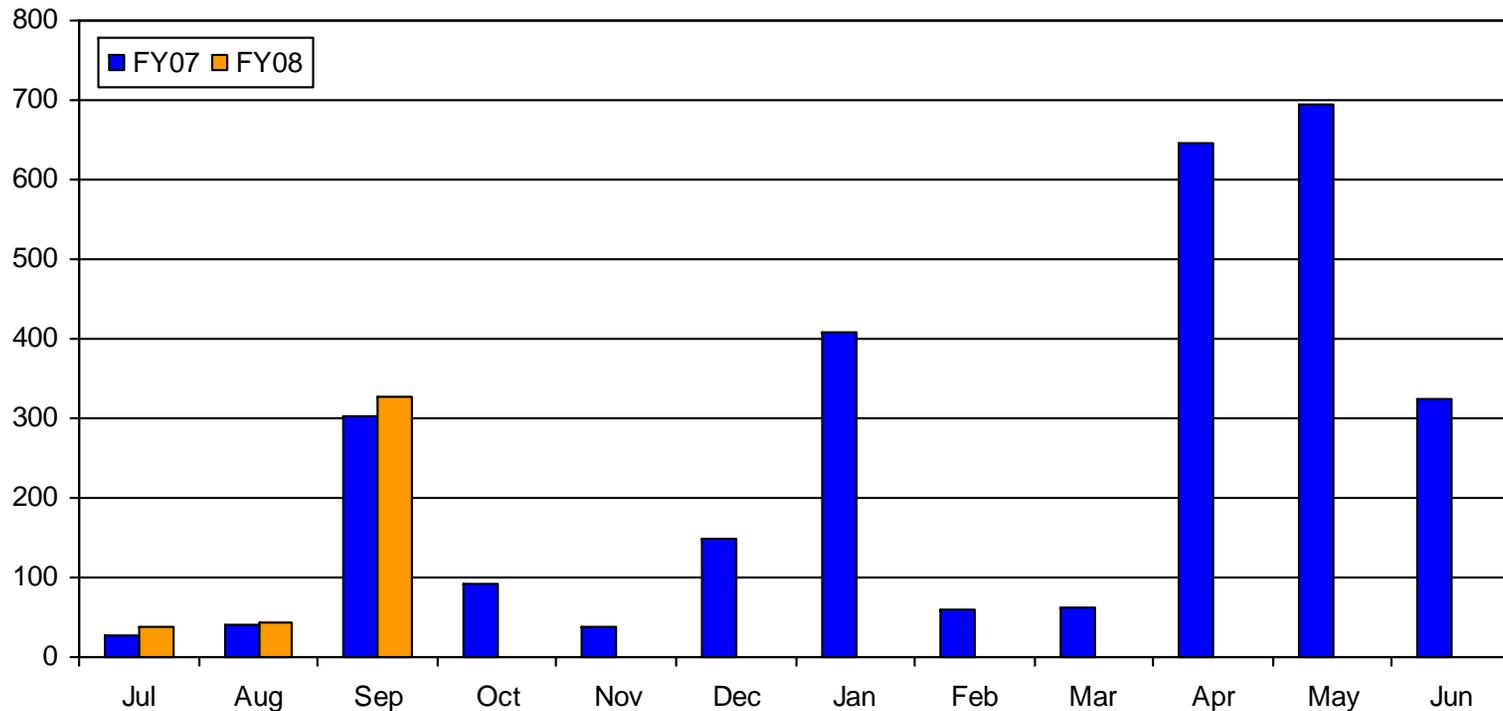
\* All Other Revenue includes interest earnings which are overstated because approximately 60% of the interest for the current quarter is due to nongeneral funds and will be transferred in October.

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



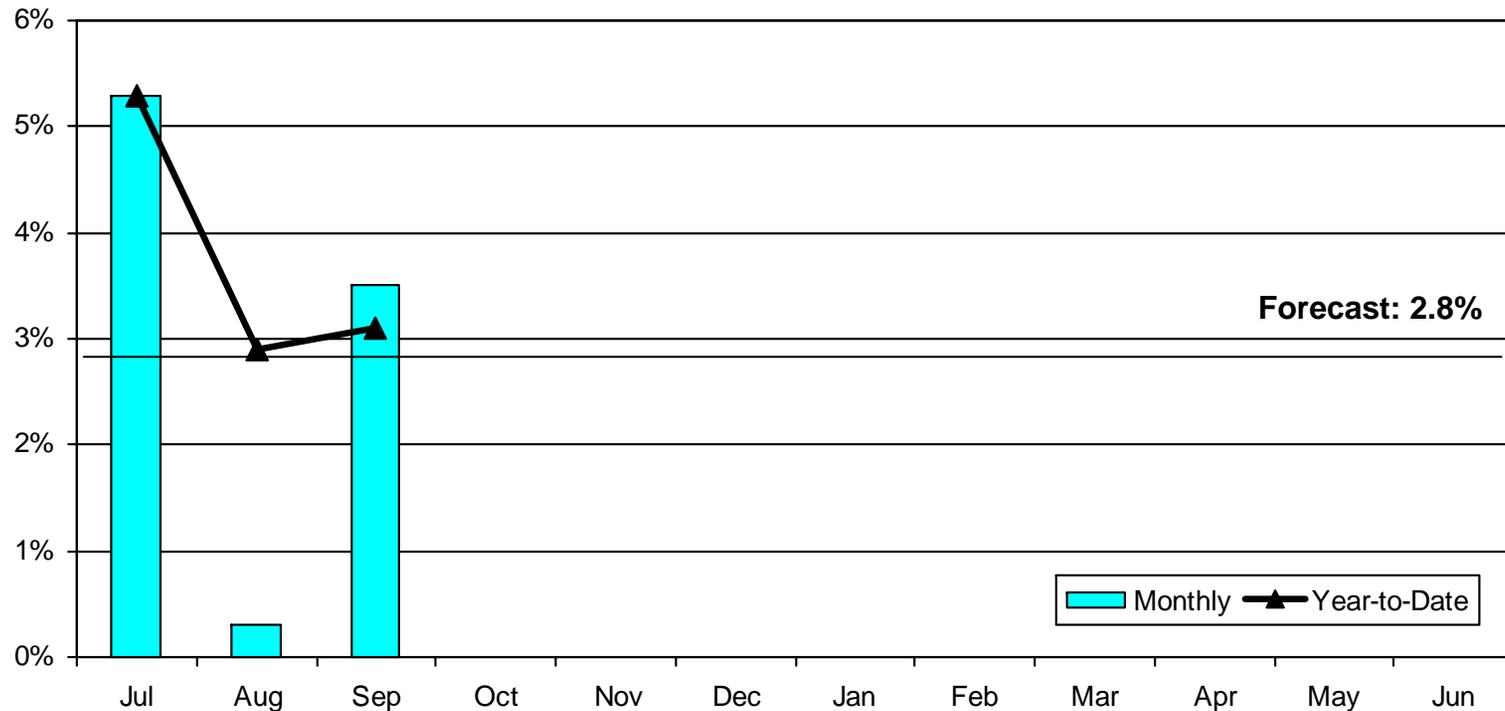
- Payroll withholding taxes grew 4.8 percent in September, in part due to one less deposit day than September of last year.
- Year-to-date growth is 4.7 percent, lagging the projected annual growth rate of 6.0 percent.

## Nonwithholding Tax Collections FY07 and FY08 Monthly



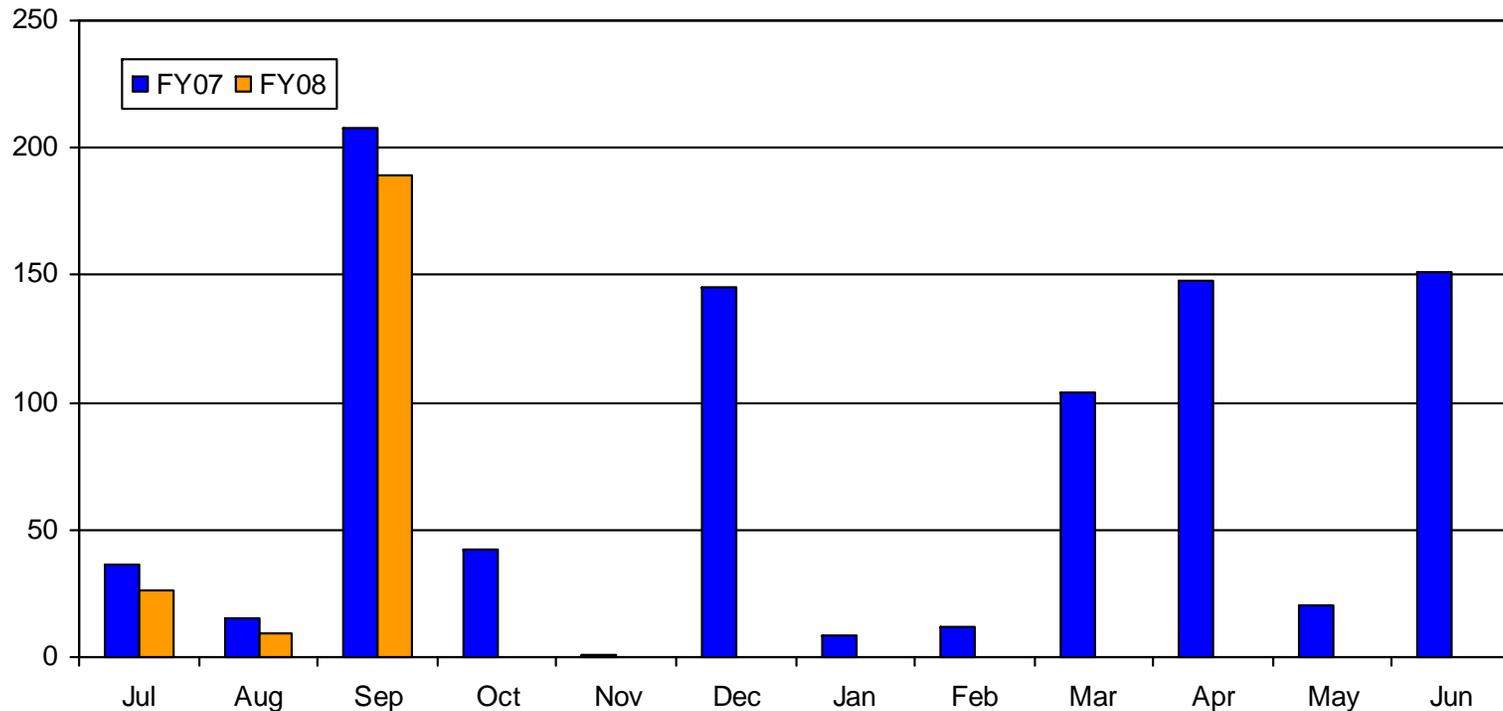
- September is the first month for significant activity since the third calendar year payment is due on September 15. Nonwithholding payments grew 8.1 percent above last September.
- Year-to-date growth is 10.7 percent, ahead of the projected annual growth rate of 6.6 percent.

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



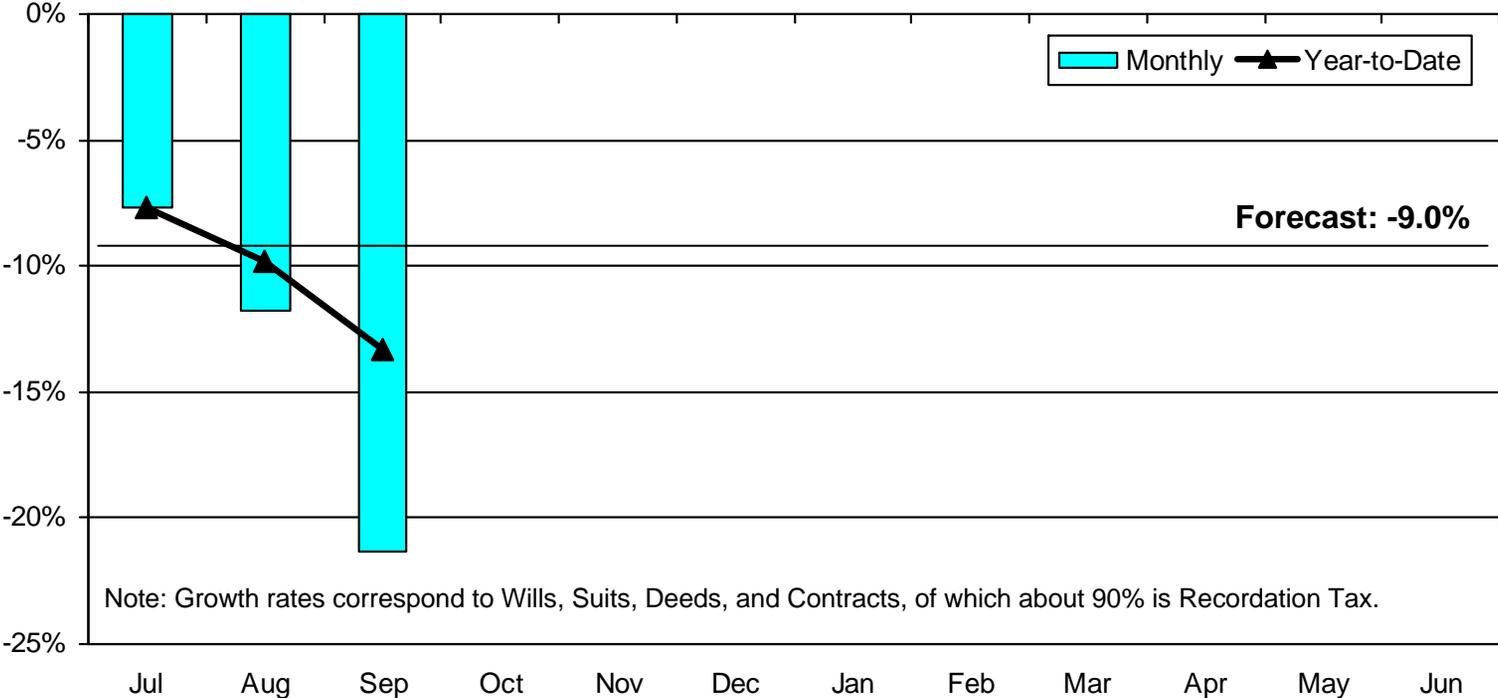
- Collections of sales and use taxes grew 3.5 percent in September.
- On a year-to-date basis, collections of sales and use taxes have increased 3.1 percent, the slowest growth in the first quarter in 5 years.

## Net Corporate Income Tax Collections FY07 and FY08 Monthly



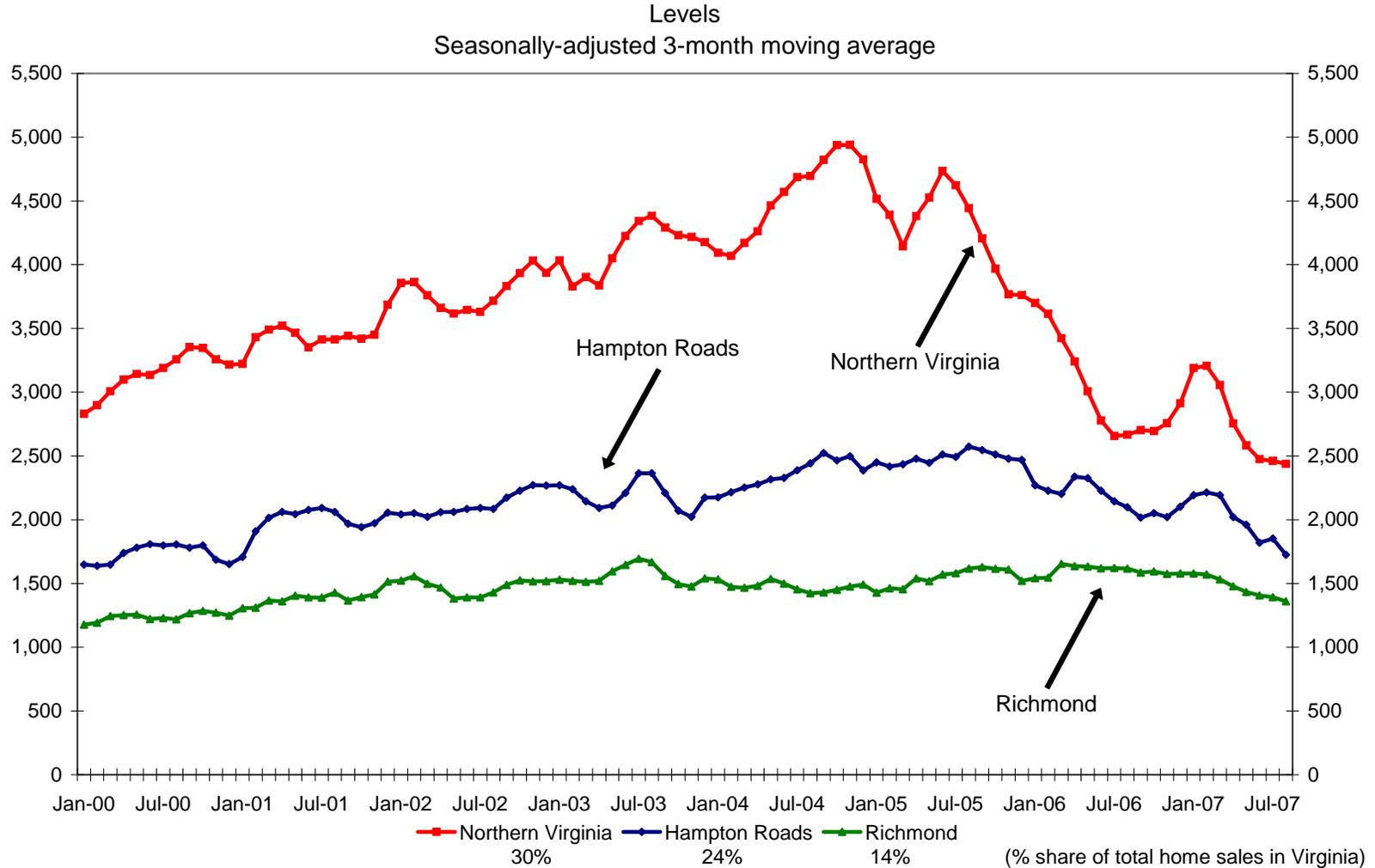
- September is the first month for significant activity since the third calendar year payment is due on September 15. Collections of net corporate income taxes fell 8.9 percent in September.
- On a year-to-date basis, net corporate income tax collections are down 13.5 percent from the first quarter of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