



Economic and Revenue Update

A Briefing for the House Appropriations Committee

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January 17, 2011

Topics for Discussion

- National and State Economic Indicators
- December Year-to-Date Revenue Collections, Fiscal Year 2011
- Next Steps

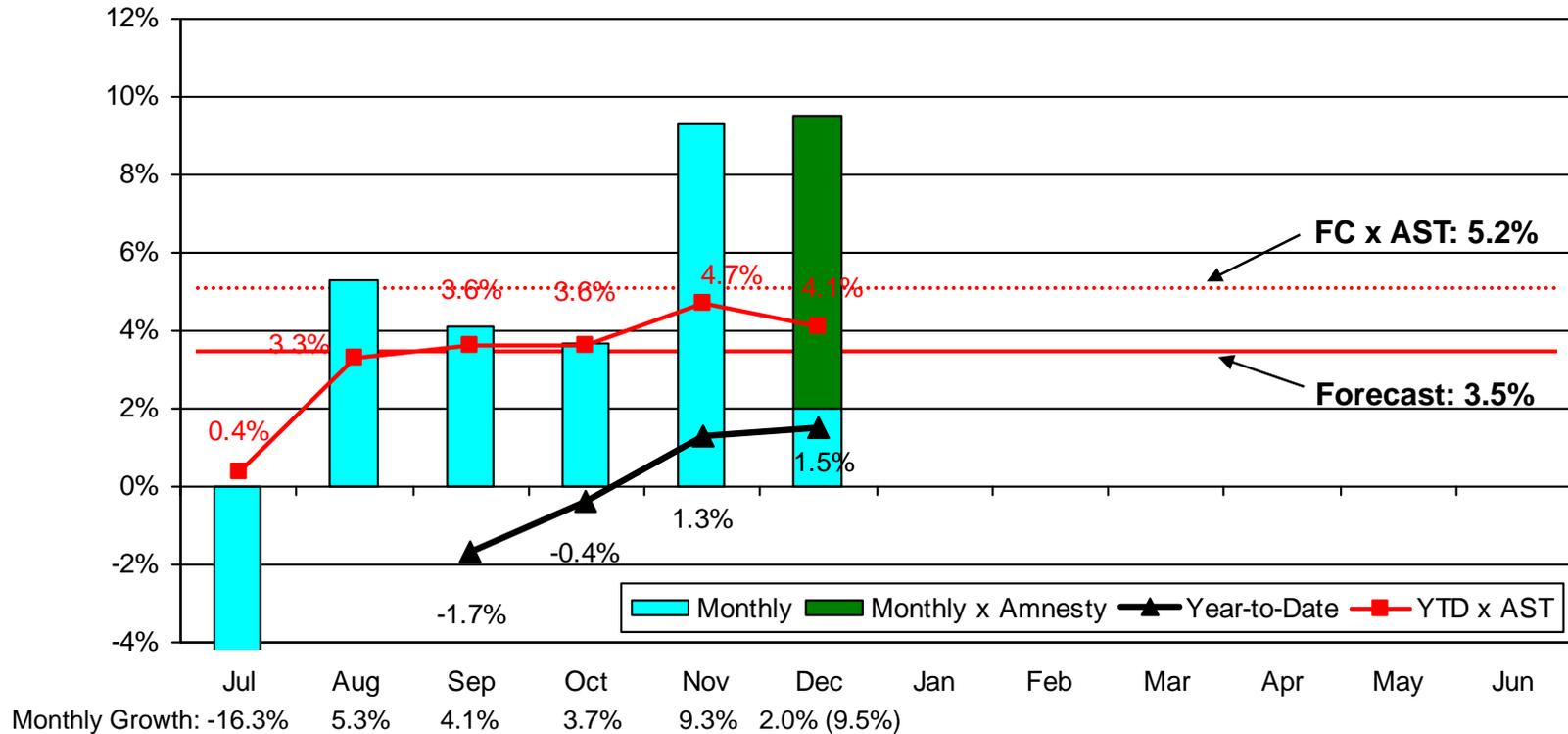
National and State Economic Indicators

- According to the final estimate, real GDP grew 2.6 percent at an annualized rate in the third quarter of 2010, substantially stronger than the initial estimate of 2.0 percent.
 - This marked the fifth consecutive quarter of growth since the recession officially ended in June 2009.
- Payroll employment rose by 103,000 jobs in December, the third consecutive monthly increase.
 - Although the labor market remains weak, modest gains in recent months suggest it is improving.
- The national unemployment rate fell to 9.4 percent in December, largely due to a reduced labor force.
- In Virginia, employers added jobs for the fifth consecutive month in November.
 - Compared with November of last year, Northern Virginia posted a gain of 0.4 percent, Hampton Roads grew 1.1 percent, and Richmond-Petersburg fell 0.1 percent.
- The unemployment rate in Virginia rose from 6.5 percent to 6.6 percent in November, but remains well below the peak of 7.8 percent in February.
- Initial claims for unemployment increased by 18,000 to 409,000 during the week ending January 1, while the four-week moving average fell from 414,000 to 411,000.
 - The initial claims data are consistent with a stagnant job market.

National and State Economic Indicators

- According to RealtyTrac, foreclosure filings for December declined 26 percent from December 2009, with one in every 501 U.S. housing units received a foreclosure filing during the month.
 - In Virginia, one in every 968 households received a foreclosure notice in December 2010.
- The saving rate was 5.3 percent in November – it has been above 5 percent for two years.
- The expansion in the manufacturing sector picked up in December, with the Institute of Supply Management index rising from 56.6 to 57.0, the second increase in the past three months.
- The Conference Board's index of leading indicators rose 1.1 percent in November, its fifth consecutive monthly increase, suggesting the pace of the recovery will pick up in coming months.
- The Conference Board's index of consumer confidence unexpectedly dropped 1.8 points in December to 52.5, but remains above its September low.
- Inflation remains low – the CPI and core inflation increased 0.1 percent in November from the previous month.
- The Federal Reserve announced at its November meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent. In addition, quantitative easing will be expanded by purchasing long-term treasury securities.

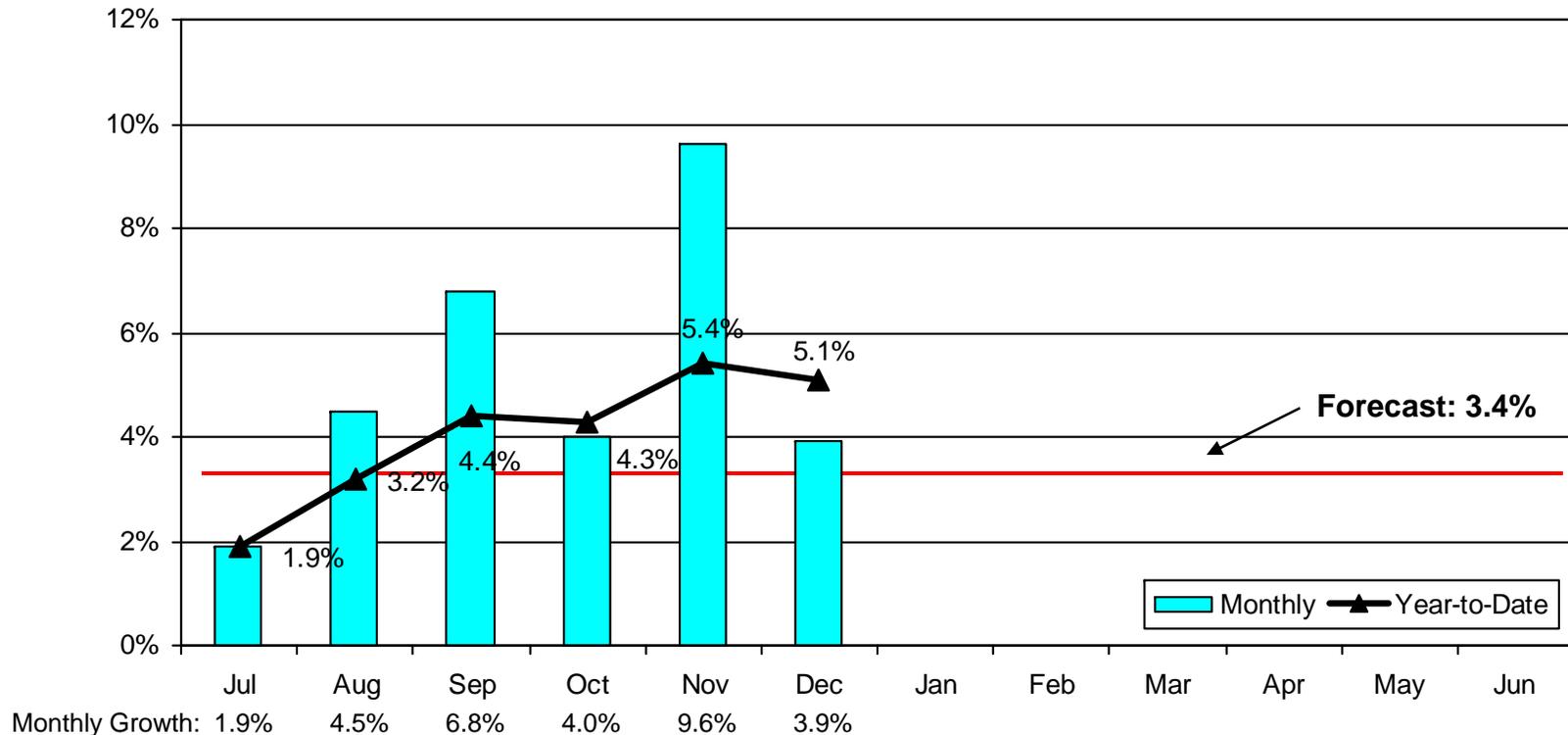
Growth in Total General Fund Revenue Collections FY11 Monthly and Year-to-Date



- Total general fund revenue collections rose 2.0 percent in December (+9.5 percent adjusted for amnesty).
- On a year-to-date basis, total revenue collections rose 1.5 percent, behind the annual forecast of 3.5 percent growth.
 - Adjusting for the accelerated sales tax program in June 2010, total revenues grew 4.1 percent through December, lagging the economic-base forecast of 5.2 percent growth.

Growth in Withholding Tax Collections

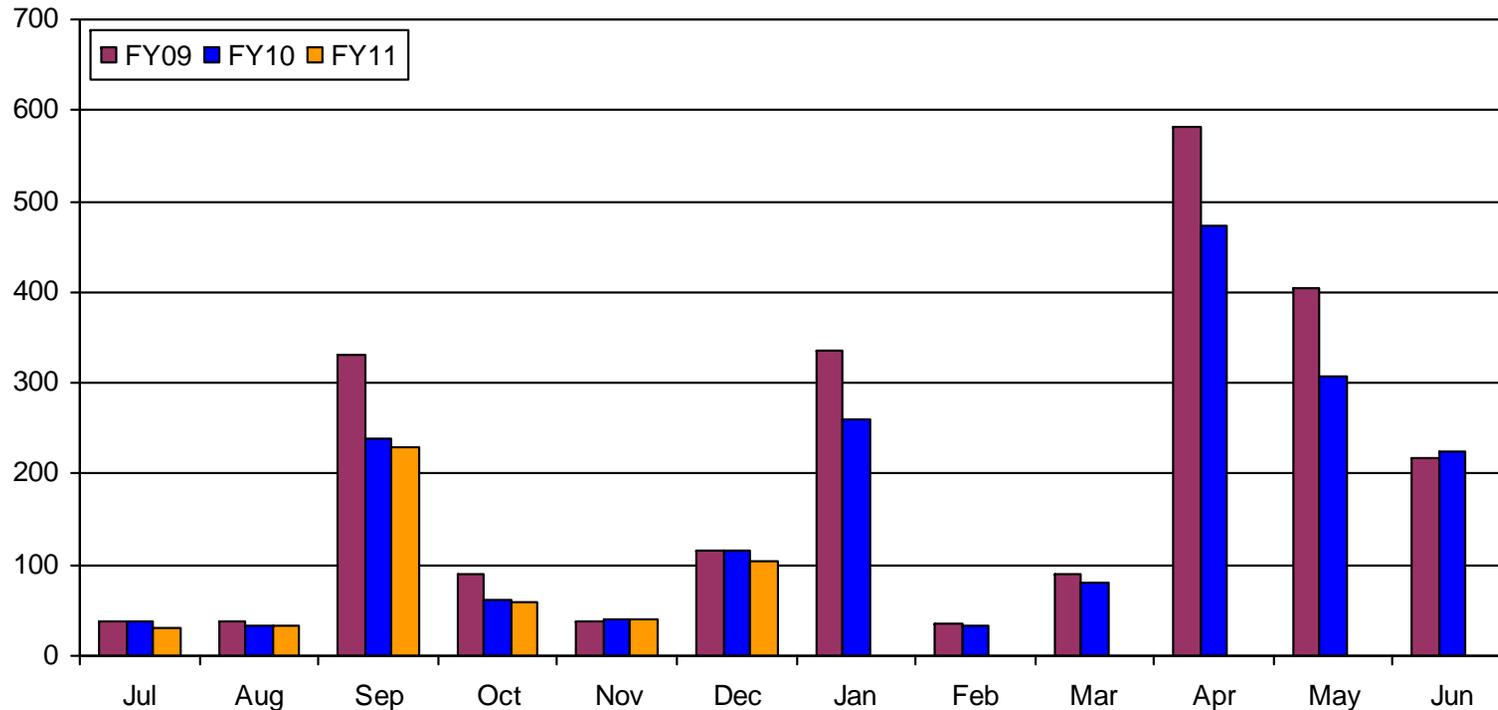
FY11 Monthly and Year-to-Date



- Collections of payroll withholding taxes grew 3.9 percent in December, the eighth consecutive month of growth in this source.
- Year-to-date withholding collections grew 5.1 percent compared with the same period last year, ahead of the projected annual growth rate of 3.4 percent.

Nonwithholding Tax Collections

FY09-FY11 Monthly



- December and January are significant months for collections in this source, but analysis of growth at this point is limited by the timing of payments.
 - Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2010.
 - A complete assessment of growth in this source will be available at the end of January, when all 2010 quarterly payments have been received.
- Year-to-date, collections through the first half of the fiscal year declined 6.0 percent from the same period last year, compared with the revised annual estimate of 10.9 percent growth.

Individual Income Tax Refunds

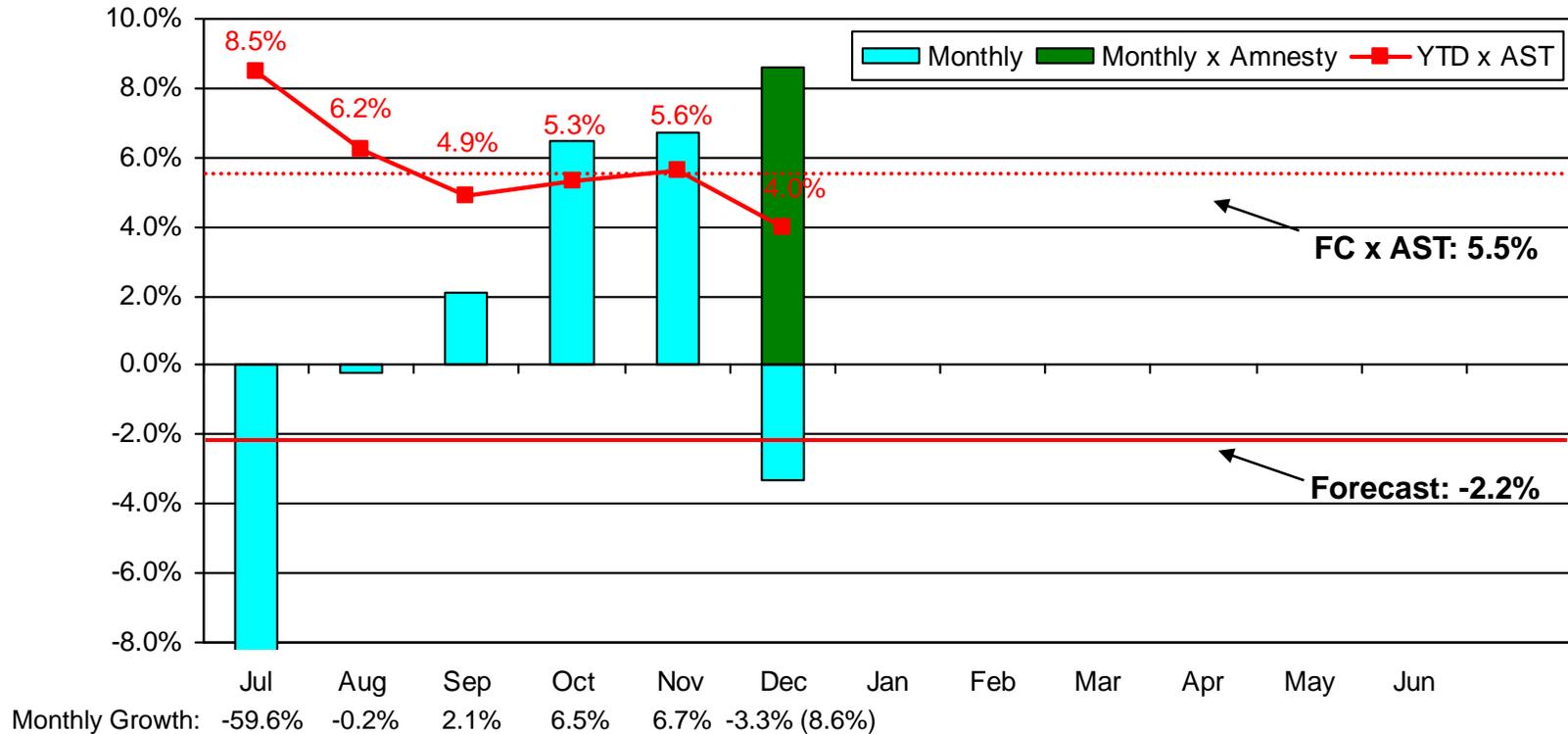
- Over the first six months of the fiscal year, refunds have fallen 14.8 percent from the same period last year, compared with the annual estimate of a 3.6 percent decline.
 - The decline in first-half refunds is attributable to a drop in large refunds, consistent with the firming of financial markets.

Net Individual Income Tax

- Through the first six months of the fiscal year, collections of net individual income tax rose 5.2 percent from the same period last year, trailing the annual estimate of 6.5 percent growth.

Growth in Sales Tax Collections

FY11 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting November sales, fell 3.3 percent in December (+8.6 percent adjusted for amnesty).
- On a year-to-date basis, collections have fallen 8.6 percent.
 - Adjusting for the accelerated sales tax program in June 2010, sales tax collections grew 4.0 percent through December, lagging the economic-base forecast of 5.5 percent growth.

Net Corporate Income Tax

- December is a significant month for collections in this source as quarterly estimated payments are due from most corporations.
- Collections of corporate income tax were \$142.8 million in December, compared with \$138.1 million last December, a 3.4 percent increase.
 - Adjusted for amnesty, corporate collections grew 41.2 percent from December 2009.
- On a year-to-date basis, collections in this source have fallen 3.9 percent, behind the estimate of a 3.1 percent decline.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 8.2 percent in December, the fifth consecutive month of growth in this source.
 - On a year-to-date basis, collections are down 1.1 percent, ahead of the forecast of a 5.6 percent decline.

Insurance Premiums Tax

- Collections of taxes on insurance premiums grew 7.2 percent in December from December 2009.
 - The required transfer of \$130.3 million to the Transportation Trust Fund per Chapter 896 of the 2007 Acts of the Assembly was completed and December was the first month this year that collections in this source were deposited into the general fund.

Summary of Fiscal Year 2011 Revenue Collections

July through December

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	Annual <u>Estimate</u> *	<u>Variance</u>
Withholding	64.5 %	5.1 %	3.4 %	1.7 %
Nonwithholding	14.4	(6.0)	10.9	(16.9)
Refunds	<u>(13.1)</u>	<u>(14.8)</u>	<u>(3.6)</u>	<u>(11.2)</u>
Net Individual	65.8	5.2	6.5	(1.3)
Sales	20.5	(8.6)	(2.2)	(6.4)
Corporate	5.3	(3.9)	(3.1)	(0.8)
Wills (Recordation)	1.9	(1.1)	(5.6)	4.5
Insurance	1.9	7.2	6.0	1.2
All Other Revenue	4.7	(2.4)	(0.3)	(2.1)
Total	100.0 %	1.5 %	3.5 %	(2.0) %
Sales x AST		4.0 %	5.5 %	(1.5) %
Total x AST		4.1 %	5.2 %	(1.1) %

* December Introduced Forecast

Next Steps

- January receipts will serve as the next critical data point in evaluating the outlook for the current fiscal year.
 - Withholding: Monthly and quarterly filers are due.
 - Nonwithholding: December and January are significant months for collections in this source. Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2010. A clearer assessment of growth in this source will be possible at the end of January.
 - Sales: January receipts are needed to more accurately assess growth in this source because a large part of holiday sales occur in December.
 - Corporate: The fourth estimated payment will be received from retailers and other companies with February-January taxable years.

Executive Amendments

Governor McDonnell's Executive Amendments Address Two Primary Concerns . . .

- Address issues that have arisen since the budget bill decisions were finalized prior to its December 17, 2010 introduction.
- Clarify or correct language or amounts to more accurately address the original intent of his proposed actions.

New resources add \$13.4 million to the budget . . .

	FY 2011	FY 2012
Resources		
Savings from 3 percent bonus granted on December 1, 2010	\$ 7,551,951	\$ -
Medicaid balances from Hancock Center (assumes recertification before April)	415,751	-
Additional funds from sales of Women's Diversion Center	175,000	-
Savings from hiring freeze (gf & select ngf, 3% vacancy rate, 2 pay period suspense)	-	5,266,510
Total Resources	\$ 8,142,702	\$ 5,266,510

\$9.5 million in new funds for public safety top the list of new spending recommendations which total \$15.3 million . . .

	FY 2011	FY 2012
Spending		
Conform to federal tax legislation	\$ 600,000	\$ 520,000
Reinstate funding for state fair	-	32,900
Restore funding for Outdoor Advertising Association	-	70,965
Fund Offshore Wind Project	-	500,000
Transfer Radio Reading Services (\$120,162 transferred, net cost = 0)	-	-
Mental Health Services Rate	-	357,406
Adjust Effective Dates of Compensation Package	-	3,762,662
Funding for Sheriff's offices - replace public safety fund	-	6,500,000
Fund state trooper overtime	-	2,988,795
Total Spending	\$ 600,000	\$ 14,732,728

The Governor's recommendations draw upon a portion of the unappropriated balance . . .

	FY 2011	FY 2012
Total Resources	\$ 8,142,702	\$ 5,266,510
Total of All Spending	\$ 600,000	\$ 14,732,728
Sum of Proposed Resources and Spending in Governor's Amendments	\$ 7,542,702	\$ (9,466,219)
Biennial Balance of Proposed Resources and Spending		\$ (1,923,517)
Unappropriated Balance in Introduced Budget		\$ 4,072,742
Revised Unappropriated Balance		\$ 2,149,226

Eleven language amendments clarify the intent or more accurately direct the intent of the Governor's proposed budget . . .

Agency	Title	Description
Compensation Board	Provide language to hold constant the reimbursement rate for local retirement costs	Adds language to maintain the level of reimbursement made by the Compensation Board for retirement costs of constitutional officers and staff.
Department of Medical Assistance Services	Correct funding for Children's Hospital of the King's Daughters to reflect latest estimates	The Governor's introduced budget included additional funding for Children's Hospital of the Kings' Daughters that totaled \$2.0 million (\$1.0 million GF) through two funding sources. The first was a new source of physician supplemental payments in the amount of \$1.2 million and the other was to increase the special Indirect Medical Education payment for CHKD by \$800,000 (from \$1.9 million to \$2.7 million). Based on updated information, the physician supplemental payments will generate about \$4.3 million in additional funding for the hospital as opposed to the \$1.2 million previously intended. Therefore, about \$3.1 million (\$1.55 million GF) will be paid in excess of what the Governor intended. To correct the funding issue, it is recommended that the entire special IME payment of \$2.7 million (\$1.35 million GF) be eliminated and the physician supplemental payments reduced by \$400,000 from their updated projections.
Department of Medical Assistance Services	Provide emergency regulatory authority to implement federal mandates related to freestanding birthing centers and family planning services.	Authorizes the Department of Medical Assistance Services (DMAS) to move family planning services under the "Plan First" program (which covers men and women not eligible for full-Medicaid coverage) from a waiver to the State Plan for Medical Assistance. The federal Patient Protection and Affordable Care Act (P.L. 111-148) adds these optional services to Medicaid and will no longer allow Virginia to operate Plan First as a demonstration waiver. Therefore, DMAS must make any family planning services eligible under the state plan if they are to be continued. In addition, the same federal law requires states to reimburse freestanding birthing centers under Medicaid.
Department of Medical Assistance Services	Authorize emergency regulatory authority to implement a prospective payment system for outpatient hospital services	Authorizes the Department of Medical Assistance Services to adopt a new prospective payment system for outpatient hospital services, similar to the current system for inpatient services. The current cost-based reimbursement system is antiquated and inefficient; whereas a prospective payment system will provide better incentives for hospitals.
Virginia Information Technologies Agency	Allow flexibility for the agency to contract with vendors	This amendment allows Executive Department agencies and institutions to contract for additional services related to the existing master services agreement.

Language amendments continued . . .

Agency	Title	Description
Department of Rail and Public Transportation	Implement requirement for state representation on Northern Virginia Transportation Commission	Federal legislation provides \$150 million a year for ten years in federal support to WMATA for capital improvements if Virginia, Maryland and the District of Columbia each contribute \$50 million. Given the Commonwealth's direct support of WMATA, the Commonwealth requested to appoint one of Virginia's WMATA board members. The NVTC declined and continues to appoint local representatives to the WMATA board. This amendment will require the NVTC to appoint the Secretary of Transportation or his designee to represent the state's interests. The amendment will also allow DRPT to make payments directly to WMATA or any other appropriate entity.
Department of Transportation	Remove reference to revenue sharing program	<p>The Governor's transportation bill amends the Code section which sets out the revenue sharing program. The changes will allow the Commonwealth Transportation Board to increase the program's funding level as needed to meet available local contributions and further leverage transportation funding. The Appropriation Act sets out the funding level of the program, which overrides the language in the Code of Virginia.</p> <p>This amendment strikes the reference in the Appropriation Act and allows the Code language to guide the program funding level.</p>
Virginia Port Authority	Authorize use of debt for constructing new warehouses	In order to increase cargo at the Newport News Marine Terminal, the Virginia Port Authority needs to construct additional warehouse space. The funding for the new construction would be provided by increasing the Authority's planned July 2011 issuance of Commonwealth Port Fund bonds from \$70 million to \$76.5 million. Currently, the use of proceeds of the authorized Commonwealth Port Fund bonds are limited to the construction of the Craney Island Marine Terminal. This amendment would allow the use of this funding for the construction of the warehouses.
General Provisions	Provide language restricting use of state funds for stem cell research	Place language in the general provisions preventing the use of state funds for the purposes of conducting human stem cell research from stem cells obtained from human embryos, or for conducting research using human embryos, except as otherwise required by federal law.
Virginia Commonwealth University	Provide language to allow for the transfer of funding to the university's operating budget	This amendment adds language that provides authority for the Director, Department of Planning and Budget, to transfer the funding included in this Item to the university's operating budget to comply with the final settlement for the property associated with this project.
9(D) Revenue Bonds	Amends 9(d) table to include additional Mary Washington project	This amendment adjusts the 9(d) bond table to properly account for the addition of the University of Mary Washington capital project Construct Dining and Student Center.

Debt Capacity

Debt Capacity Study

- At its meeting on December 18, 2009, the Debt Capacity Advisory Committee concluded there was no additional capacity for the authorization and issuance of debt beyond that which had already been authorized.
- These findings were primarily attributed to:
 - Significant decrease in forecast revenues.
 - Large bond authorizations in 2007 and 2008 (\$3 billion each).
 - Prior legislative actions that (i) directed Lottery profits away from the General Fund, and (ii) repealed the estate tax.
- Committee recognized that Virginia's debt burden remained favorable relative to peer states, so requested a study by staff to determine:
 - If the 5% measure was still appropriate,
 - If one or more additional measures should be incorporated in the model,
 - If the composition of debt included in the model should be changed, and
 - How the model could be modified to smooth the dramatic fluctuations in capacity.

Debt Capacity Study (Continued)

- The following are the primary study recommendations adopted by the Committee:
 - Blended revenues to include (i) 0.25% sales tax enacted in 2004 and never included in the model (\$209 million in 2011), and (ii) certain recurring transfers to the General Fund (GF) from Non-general Fund (NGF) sources (\$26.4 million annually).
 - Annual debt service carried in the model was reduced by the portion paid from NGF (i.e., Virginia College Building Authority bonds are paid in part from a NGF out-of-state student capital fee). For the current biennium, this represents \$26 million each year.
 - Annual recommendation to be based on **average** capacity over the ten-year horizon of the debt capacity model rather than just the next two year solution.
 - Smooths the effect of revenue fluctuations
 - Facilitates long-term capital planning
 - Same overall capacity over the ten-year horizon

Debt Capacity Recommendation

- December 2010 report of the Debt Capacity Advisory Committee
 - An additional \$363 million could prudently be authorized during each of fiscal years 2011 and 2012.
- Solution based on average annual capacity over the ten-year model horizon, while maintaining debt service at less than 5% of Blended Revenues.
- If all available capacity is utilized, the model shows that debt service will exceed 5% in some years.
- The highest level of debt service to revenues occurs in 2015 at 5.49%.

Debt Capacity Recommendation -- December 2010

(Dollars in Millions)

Fiscal Year	Blended Revenues	[A]	[B]	[C]	[D]	[C]	[D]
		Actual Outstanding Debt Service as a % of Revenues	Actual & Projected Debt Service as a % of Revenues	Amount of Additional Debt that may Be Issued December 2010	Total Debt Service as a % of Revenues	Amount of Additional Debt that may Be Issued December 2009	Total Debt Service as a % of Revenues December 2009
Actual 2008	17,076.40	3.12%	3.12%	N/A	3.12%	N/A	3.04%
Actual 2009	15,680.70	3.75%	3.75%	N/A	3.75%	N/A	3.75%
Actual 2010	15,871.20	3.99%	3.99%	N/A	3.99%	0.00	4.50%
2011	16,386.60	4.23%	4.88%	0.00	4.88%	0.00	4.98%
2012	17,192.53	3.88%	4.69%	0.00	4.69%	0.00	5.13%
2013	17,881.30	3.51%	4.96%	0.00	4.96%	0.00	5.03%
2014	18,693.10	3.24%	5.00%	0.00	5.00%	425.00	4.96%
2015	19,657.60	3.03%	4.93%	173.95	4.99%	425.00	4.99%
2016	20,565.90	2.75%	4.76%	459.72	4.99%	650.00	4.99%
2017	21,517.18	2.46%	4.56%	597.38	4.99%	730.00	4.99%
2018	22,451.66	2.12%	4.30%	813.59	4.99%	742.78	4.88%
2019	23,448.25	1.82%	4.00%	794.74	4.92%	742.78	4.74%
2020	24,490.00	1.60%	3.65%	794.74	4.77%	-	-
			10 Year Average	\$363.41		\$371.56	

[A] Equals actual outstanding debt service as a percentage of blended revenues.
 [B] Equals outstanding debt service and debt service on currently authorized but unissued debt as a percentage of blended revenues
 [C] Equal to annual amount of additional principal that may be issued without violating the parameters of the model.
 [D] Equals outstanding debt service; debt service on currently authorized but unissued debt and debt service on additional debt that that could be issued, as a percentage of blended revenues

Debt Capacity Recommendation -- December 2010

Average Solution

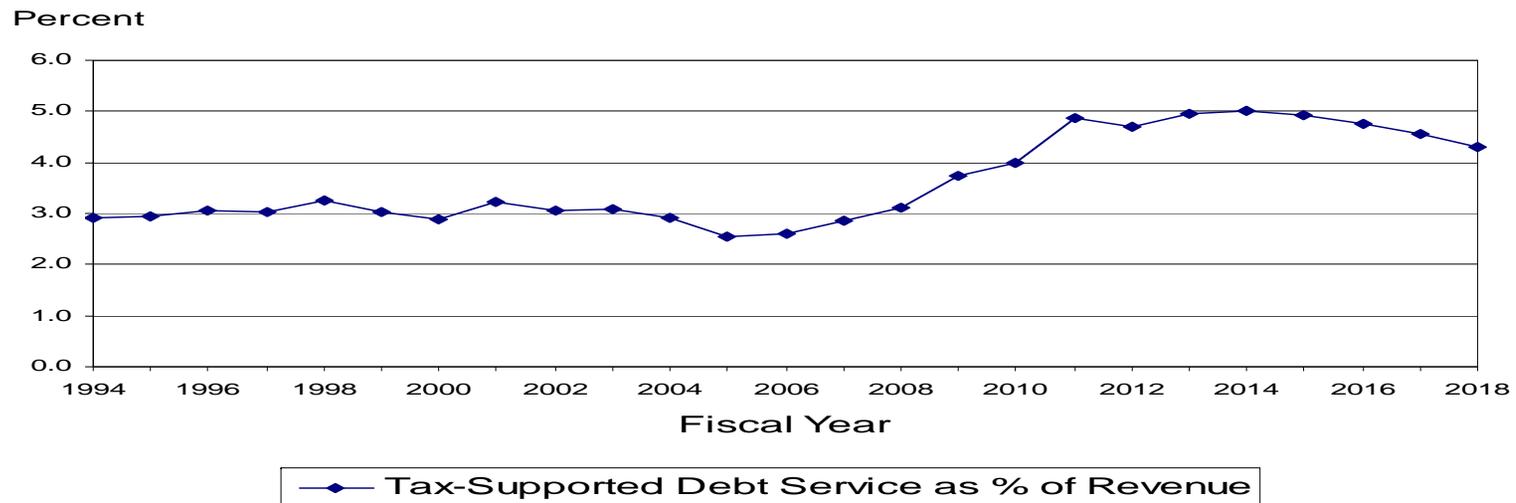
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	[A]	[B]	[C]	[D]	[C]	[D]	
Fiscal Year	Blended Revenues	Actual Outstanding Debt Service as a % of Revenues	Actual & Projected Debt Service as a % of Revenues	Amount of Additional Debt that may Be Issued	Total Debt Service as a % of Revenues	Amount of Additional Debt that may Be Issued December 2009	Total Debt Service as a % of Revenues December 2009
Actual 2008	17,534.60	3.04%	3.04%	N/A	3.04%	N/A	3.04%
Actual 2009	15,680.70	3.75%	3.75%	N/A	3.75%	N/A	3.75%
Actual 2010	16,085.70	3.94%	3.94%	N/A	3.94%	0.00	4.50%
2011	16,386.60	4.23%	4.88%	0.00	4.88%	0.00	4.98%
2012	17,192.53	3.88%	4.69%	363.41	4.85%	0.00	5.13%
2013	17,881.30	3.51%	4.96%	363.41	5.27%	0.00	5.03%
2014	18,693.10	3.24%	5.00%	363.41	5.45%	425.00	4.96%
2015	19,657.60	3.03%	4.93%	363.41	5.49%	425.00	4.99%
2016	20,565.90	2.75%	4.76%	363.41	5.43%	650.00	4.99%
2017	21,517.18	2.46%	4.56%	363.41	5.33%	730.00	4.99%
2018	22,451.66	2.12%	4.30%	363.41	5.16%	742.78	4.88%
2019	23,448.25	1.82%	4.00%	363.41	4.94%	742.78	4.74%
2020	24,490.00	1.60%	3.65%	363.41	4.66%	-	-
			Average	\$363.41		\$371.56	

[A] Equals actual outstanding debt service as a percentage of blended revenues.
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Tax-Supported Debt Service as a Percent of Revenue*

Includes projected debt service on debt authorized but unissued as of December 17, 2010



* Revenue includes actual fiscal year revenues (1994-2010), the December 2010 forecast and certain revenue from the December 2010 Transportation Trust Fund forecast.

Outstanding Tax-Supported Debt of the Commonwealth

Fiscal Years 2006-2010

