



COMMONWEALTH OF VIRGINIA

HOUSE OF DELEGATES

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APPROPRIATIONS COMMITTEE
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LACEY E. PUTNEY CHAIRMAN
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August 8, 2011

MEMORANDUM

TO: Member, House of Delegates

FROM: Lacey E. Putney, Chairman

RE: **HAC Staff Analysis on FY 2011 Revenue Collections and Preliminary 2012-14 Biennial Budget Outlook**

Attached is an analysis prepared by the staff of the House Appropriations Committee on the Fiscal Year 2011 general fund revenue collections and a preliminary look at the 2012-14 biennial budget.

The paper makes several important observations pertaining to the FY 2011 general fund tax collections. Specifically it notes that approximately 58% of the excess revenues (\$165.8 million) came from the two most volatile sources -- corporate and estimated payments. These two sources account for about 18% of the total general fund tax revenue.

On the other hand, 80% of the total general fund tax revenues, which are derived from payroll withholding (income tax) and sales tax, accounted for \$103.7 million (or one-third) the excess revenues. More to the point however is the fact that these sources essentially came in within forecast.

When further analyzed, payroll withholding grew 5% or 0.7% ahead of forecast. This rate of growth is well below the historic trend growth of 6.1%. Furthermore, this rate of growth is less than we experienced in the two previous recoveries. For example, coming out of the 1991 and 2001 recessions, withholding grew about 8% and 7.2%, respectively. Clearly the 5% growth for FY 11 reflects the continued softness in the labor market and wage and salary growth.

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In looking at sales tax, which is a reflection of consumer behavior, collections exceeded the forecast by \$43.5 million. However, this excess was due to accelerated sales tax collections, tax amnesty and the modifications to the Dealer Discount paid to retailers. On an economic basis, sales tax collections performed at 4.5%, under the projected forecast of 4.8%. Like, payroll withholding, coming out of the 1991 and 2001 recession, sales tax grew 7% and 14%, respectively. Again, current collections suggest that consumers remain cautious in light of higher fuel prices, depressed home values, and the need to continue paying down their debt.

Of course as the paper notes, there are Constitutional and statutory claims against the excessive revenues. At the Joint Meeting scheduled for August 18th, the Governor and Secretary Brown will further discuss the FY 2011 revenue collections and also reveal the amount of unexpended general fund agency balances that will be available for reversion.

Finally, the paper touches on the 2012-14 biennial budget, along with some observations as to the current economic environment and the need to keep an eye on federal deficit reduction efforts and how cuts in defense may impact the Northern Virginia and Hampton Roads economies. Please note that budget numbers that are provided represent preliminary numbers and will continue to be refined as agencies begin the budget process. Certain spending needs are also driven through budget forecasts, such as Medicaid, corrections, and public education. Development of these forecasts will begin in earnest in September and we should have better numbers by the time of the Appropriations Committee's annual retreat.

As always, if you have any questions please feel free to contact me or Robert Vaughn, the Committee's Staff Director.