



COMMONWEALTH OF VIRGINIA
HOUSE OF DELEGATES
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LACEY E. PUTNEY, CHAIRMAN
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July 17, 2008

MEMORANDUM

TO: Members, House Appropriations Committee

FROM: Robert P. Vaughn, Staff Director *RPV*

SUBJECT: Preliminary Year-End Revenue Data and Forecast for Upcoming Biennium

I met with Secretary Wagner and Ric Brown, Director of Planning and Budget this morning to review the Administration's preliminary year-end close revenue data for fiscal year 2008. In terms of fiscal year 2008, it appears we have exceeded the annual general fund estimate by \$14.8 million. However, when transfers and other general fund resources (lottery profits and ABC profits) are included, total general fund resources exceed the forecast by \$5.5 million, within 0.03 percent of the annual forecast.

Although the Commonwealth marginally exceeded the 2008 forecast, this was in large part due to stronger than anticipated performance of corporate tax receipts and slower than anticipated growth in refunds. However, more importantly, payroll, sales and nonwithholding receipts all failed to meet the forecast. As you know, payroll and sales tax revenues are indicative of the condition of the broader economy, with income and job growth acting as proxies for these sources. These two sources account for more than 70 percent of the general fund revenue and are the "bread and butter" of the Commonwealth's receipts. Payroll withholding taxes, which were forecast to grow at 5.2 percent, increased only 4.3 percent. General sales and use taxes grew only 0.9 percent compared to a 1.6 percent growth estimate.

Even more disturbing are trends for the most recent quarter for these sources. Payroll withholding has grown only 1.6 percent over the last 4 months. By way of comparison, during the recession of fiscal years 2002 and 2003, payroll growth was 2.5 percent. Trends on sales are even more anemic, with four month growth rates hovering at 0.8 percent, levels last seen in the early 1990s.

As a result, the Secretary has indicated that Governor Kaine will begin a re-estimate of the forecast for the 2008-2010 biennium. It should be noted that the Governor has no legal authority to withhold agency appropriation authority until a formal reforecast has been submitted

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to the General Assembly. Therefore I anticipate that the Governor will report a forecast revision by early fall, prior to the normal November/December time period. The Governor's Chief of Staff has directed all agencies to curb discretionary spending and to begin thinking of long-term budgetary savings strategies in the interim period.

As I learn additional information I will keep you apprised.

cc: Chairman Lacey E. Putney
Speaker William J. Howell