



Revenue and Budget Update

A Briefing for the House Appropriations Committee

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September 21, 2009

Topics for Discussion

August 2009 Revenue Collections

September 2009 Budget Reduction Strategies

National and State Economic Indicators

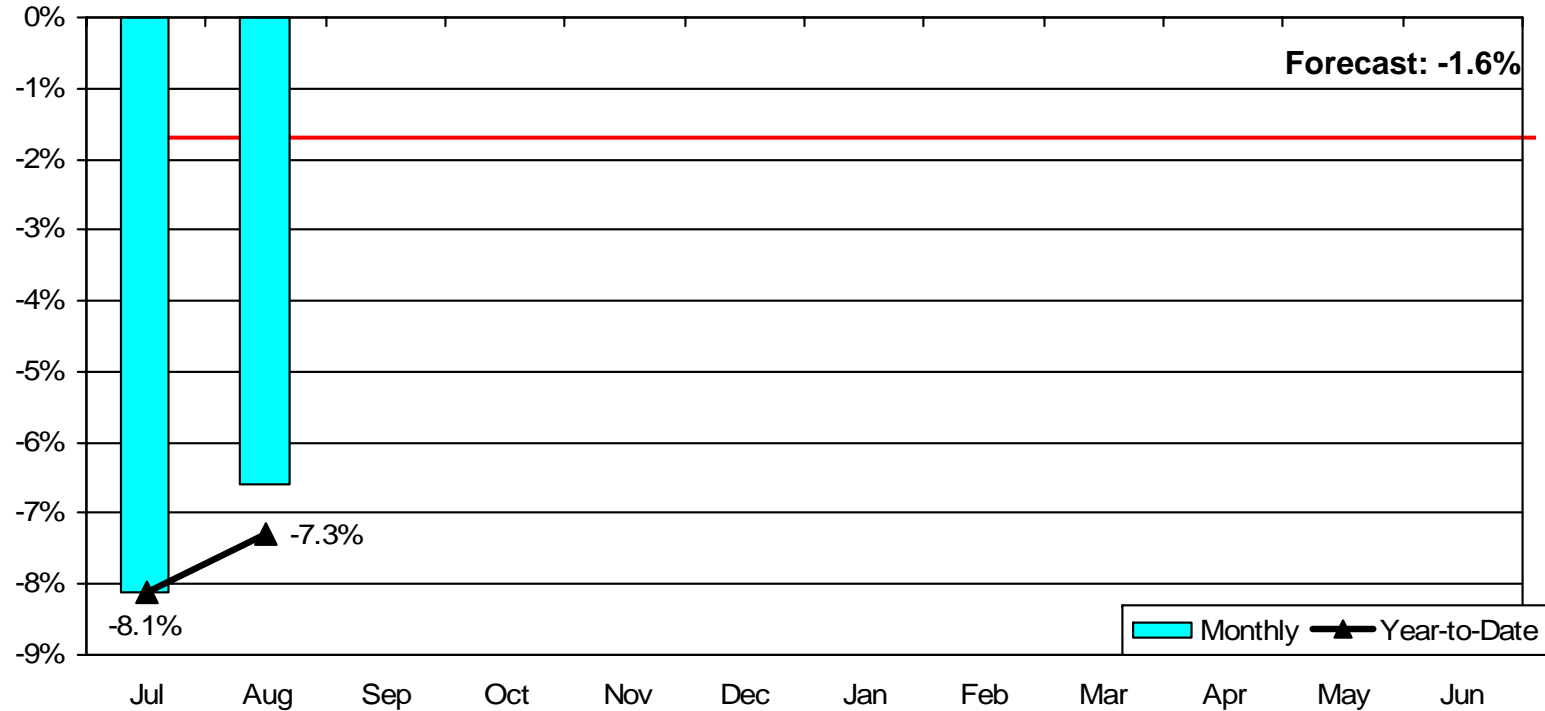
- Most national indicators suggest the recession is nearing an end, with some analysts suggesting the economy may have already hit bottom.
- Real GDP fell 1.0 percent in the second quarter, a much smaller decline than the 5.4 percent decline in the fourth quarter of 2008 and the 6.4 percent decline in the first quarter of 2009.
- Payroll employment fell by 216,000 jobs in August, less than half of the average monthly job loss over the last six months.
- The national unemployment rate rose to 9.7 percent in August from 9.4 percent in July, the highest rate since June 1983.
- In Virginia, payroll employment fell by 2.9 percent in July, the largest monthly drop since August 1954. Northern Virginia posted a decline of 0.8 percent, Hampton Roads fell 1.1 percent, and employment in the Richmond-Petersburg area fell 3.4 percent in July.
- The unemployment rate in Virginia fell from 7.3 percent to 6.9 percent in July, with the last six months posting an average rate of 7.0 percent. The unemployment rate was 4.1 percent in July 2008.

National and State Economic Indicators

- The Institute of Supply Management index increased by 4.0 points in August, rising from 48.9 to 52.9. The increase leaves the index above the expansionary threshold of 50 for the first time since January 2008.
- The Conference Board's index of leading indicators rose 0.6 percent to 101.6 in July, its fourth consecutive monthly increase. Seven of the ten components contributed to the increase.
- The Conference Board's index of consumer confidence rose from 47.4 to 54.1 in August. The expectations component drove the increase, while the current conditions component rose only modestly. Although the index rose to its second highest level since September, it remains at recessionary levels.
- The Virginia Leading Index rose 0.4 percent in July. A decline in initial claims for unemployment and rising auto registrations contributed positively to the index, offsetting a decline in building permits. The leading index rose in ten of the eleven metro areas in the Commonwealth in July. In Hampton Roads, the index remained unchanged.

Growth in Total General Fund Revenue Collections

Fiscal Year 2010 Monthly and Year-to-Date

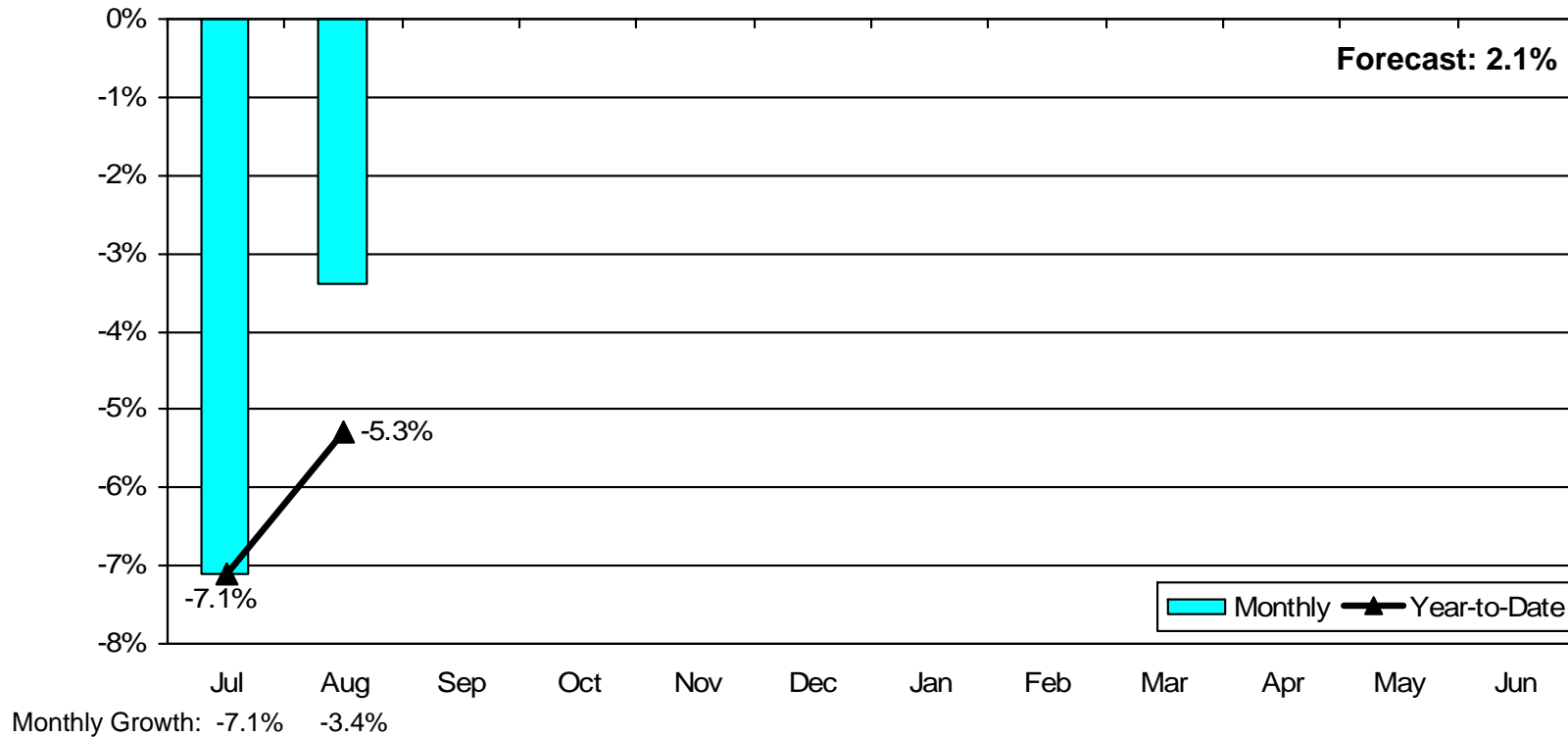


Monthly Growth: -8.1% -6.6%

- Total general fund revenue collections fell 6.6 percent in August compared with August 2008.
- On a year-to-date basis, total revenues fell 7.3 percent, trailing the revised annual forecast of a 1.6 percent decline.

Growth in Withholding Tax Collections

Fiscal Year 2010 Monthly and Year-to-Date



- Collections of payroll withholding taxes fell 3.4 percent in August.
- Year-to-date withholding collections declined by 5.3 percent over the same period last year, trailing the projected annual growth rate of 2.1 percent.

Individual Nonwithholding Tax Collections

- August is not a significant month for nonwithholding collections, since the first estimated payment in fiscal year 2010 is due in September.
- Year to date, collections through August were \$71.7 million compared with \$75.9 million in the same period last year, falling by 5.5 percent and ahead of the annual estimate of a 16.8 percent decline.

Individual Income Tax Refunds

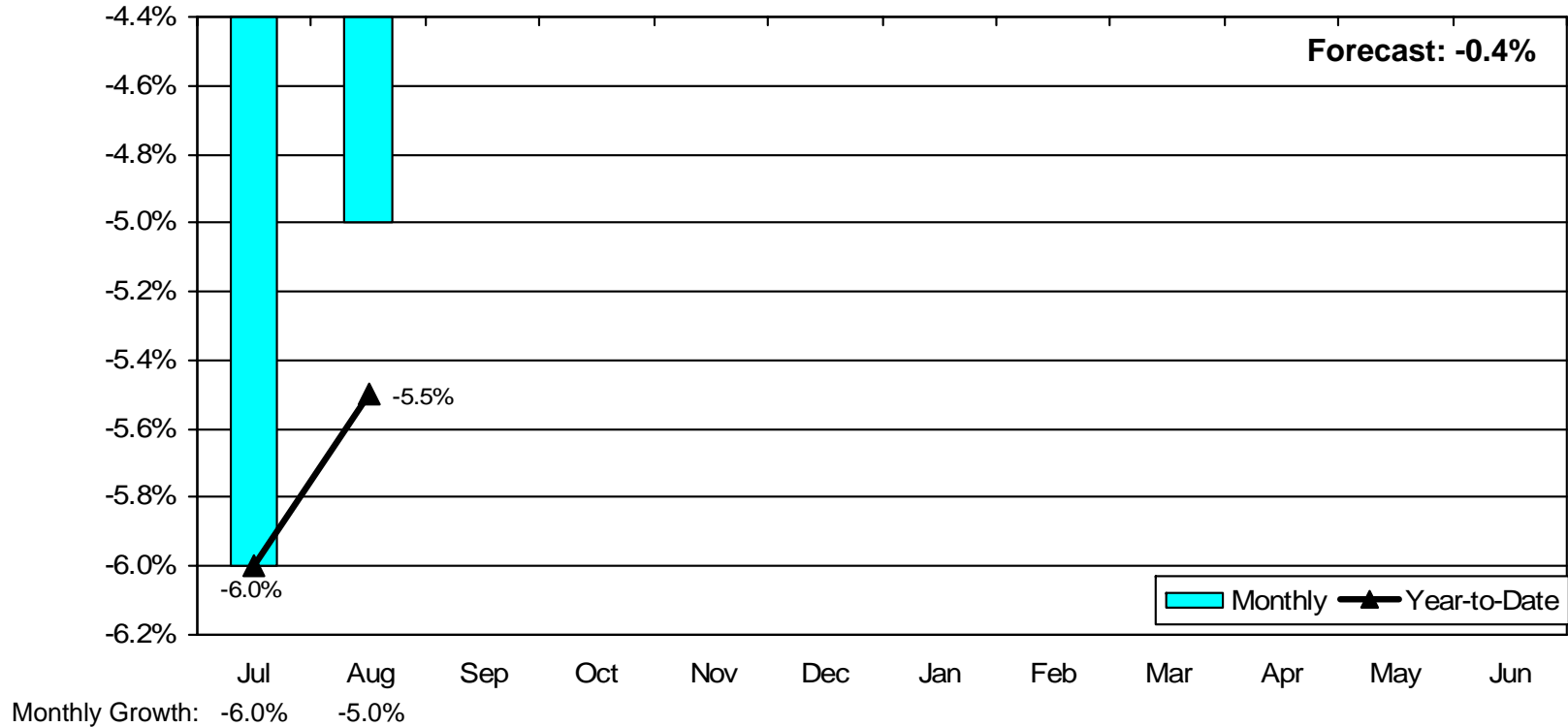
- Through August, \$113.0 million in individual refunds have been issued, compared with \$94.1 million in the same period last year, exceeding the annual forecast.
 - For the first two months of the fiscal year, about 92,000 refunds have been issued, compared with about 70,000 in the same period last year.

Net Individual Income Tax

- For the first two months of the fiscal year, collections of net individual income tax fell by 7.0 percent from the same period last year. The forecast assumes a decline of 5.2 percent.

Growth in Sales Tax Collections

Fiscal Year 2010 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting July sales, fell 5.0 percent in August.
- On a year-to-date basis, collections have fallen 5.5 percent, lagging the annual estimate of a 0.4 percent decline and the policy adjusted forecast decline of 4.1 percent. (Amnesty and new sales tax remittance.)

Corporate Income Tax Collections

- As with nonwithholding, August is not typically a significant month in corporate income tax collections, since the first estimated payment for the fiscal year is due in September.
- Through the first two months of the fiscal year, \$27.6 million has been collected in this source, compared with \$25.2 million over the same period last year.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 10.5 percent in August, and are down 9.7 percent on a year-to-date basis, near the forecast of a 9.6 percent decline.

Summary of Fiscal Year 2010 Revenue Collections

July through August

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>Revised Estimate</u>	<u>Variance</u>
Withholding	66.3 %	(5.3) %	2.1 %	(7.4) %
Nonwithholding	13.7	(5.5)	(16.8)	11.3
Refunds	(13.8)	20.1	(1.2)	21.3
Net Individual	66.1	(7.0)	(1.8)	(5.2)
Sales	20.5	(5.5)	(0.4)	(5.1)
Corporate	4.7	9.7	2.2	7.5
Wills (Recordation)	2.0	(9.7)	(9.6)	(0.1)
Insurance	1.8	0.0	0.2	(0.2)
All Other Revenue	4.8	(22.0)	(5.4)	(16.6)
Total	100.0 %	(7.3) %	(1.6) %	(5.7) %

Next Month's Revenues Are More Significant

- September collections will complete the first quarter of fiscal year 2010 and provide a clearer assessment of revenue growth.
- The first estimated payments from individuals, corporations, and insurance companies are due in September.

Overview of Budget Reduction Plan

FY 2010 Budget Shortfall and Reduction Strategies

Net Budget Shortfall for 2008-2010 Biennium	
	<u>\$ in Millions</u>
Balance in Appropriations Act (Chapter 781)	\$ 157
FY 2009 Revenue Shortfall	(299)
FY 2010 Revenue Shortfall	(1,209)
Net Budget Shortfall for Biennium	\$ (1,351)

- Because almost three months of fiscal year 2010 have elapsed, the Governor's proposals were directed at:
 - Managing the shortfall while minimizing impact on K-12 education, safety net services, and local governments.
 - Making agency and targeted budget reductions that could be continued through 2010-12 biennium and beyond.
- The Governor's plan includes a variety of actions including: agency and program reductions, reversion of prior year unspent general fund and nongeneral fund balances, use of alternative funding sources as a substitute for general fund spending, and a proposed Revenue Stabilization Fund transfer.

Characteristics of Governor's Proposed Budget Plan

- No tax increase is proposed.
- No issuance of new state debt is assumed.
- No program or policy reductions are made to K-12 education.
 - General fund reductions are offset by other funding sources and federal stimulus funds.
- Safety net programs and services are maintained to extent possible.
- Reductions in aid to local governments are minimized:
 - Funding to localities represents about 50 percent of general fund spending.
 - Policy reductions in aid to localities make up only about 3 percent of all proposed actions.
- Federal fiscal stimulus funds are used to mitigate almost half of the impact of reductions to higher education.

K-12 Education Savings Strategies

- Majority of savings attributable to strategies that supplant general funds with other sources of funding.
 - Literary Fund balances to support school employee retirement contributions (\$55.0 million).
 - Federal stimulus (State Fiscal Stabilization Funds) to supplant general fund supported programs (\$68.9 million).
 - Lottery Fund balances to supplant general fund programs (\$9.9 million).
- Sales tax distribution lowered due to August revenue revision (\$37.6 million savings).

Higher Education Reduction Strategies

- Higher education reductions total \$196.8 million from the general fund.
- Four year schools are reduced by 15 percent.
 - Two year colleges (VCCS and RBC) are reduced by 13 percent.
- Institutions of higher education are given flexibility to determine how to implement the reductions (i.e., no specifically approved reduction strategies).
 - No restrictions are placed on tuition increases.
- The net reductions to higher education institutions (using SFSF) now totals \$105.2 million.
 - An additional \$91.5 million in stimulus funding used in fiscal year 2010 to mitigate the impact.
- With the use of SFSF, the net impact for four-year institutions now becomes 8 percent and 6.9 percent for two-year colleges (systemwide = 7.7 percent).

Public Safety Reduction Strategies

- Closes two Department of Corrections' facilities due to declining inmate population forecasts (\$10.4 million).
 - Brunswick Correctional Center and Botetourt Correctional Center.
- Proposes to sell Brunswick Correctional Center for a local regional jail.
 - Capital savings for affected localities.
 - Eliminate need for state to issue \$50 million in debt.
- Closes Natural Bridge Juvenile Correctional Center equalizing system wide capacity and juvenile population (\$1.2 million).
- Maintains existing State Police academy class, but postpones a future school to next biennium (\$2.0 million).
- Reduces support to sheriffs' offices by 4.7 percent (\$19.5 million) and HB 599 funding by \$13.7 million.

Employee Compensation Strategies

- 929 positions eliminated, including 593 layoffs statewide.
- No base salary reductions for state employees.
- One day furlough for all Executive Department employees.
 - Nonessential employees will be off the Friday before Memorial Day.
 - Higher education, public safety, and other essential employees will have alternative schedules determined by agency.
 - Employee VRS benefits will be based on unreduced salary.
- VRS employer contributions for state employees and teachers will be suspended for the last quarter of fiscal year 2010 (\$104.1 million).
 - Local governments realize savings from teacher rate reductions.
- Funds pay-as-you go rates for the VRS Group Life, State and Teacher Retiree Health Credit, and VSDP plans (\$30.9 million).

Summary of Governor's Proposed Budget Actions

	<u>FY 2010</u>
General Fund Revenue Shortfall (incl. transfers)	\$ (1,350.5)
Agency-based Actions:	
Agency Pledged Balances	22.8
Agency GF/NGF Balances	143.4
Net GF Higher Education Reductions	105.3
Close Correctional Facilities	36.6
Constitutional Officers	30.4
One Day Employee Furlough	16.3
Indigent Care Funding	7.0
MH Treatment/Disability Training Centers	6.3
Economic Development/Tourism	3.1
Remaining Agency Reductions	190.4
Subtotal	\$ 561.6
Revenue Sharing Adjustments:	
K-12 Sales Tax	37.6
HB 599 Payments	13.7
Subtotal	\$ 51.3
Other Actions:	
Revenue Stabilization Fund Withdrawal	283.0
Federal Stimulus (K12 & Higher Education)	160.4
VRS Employer Retirement Rate Suspension	104.1
VRS Employer Non Retirement Programs Rate Suspension	30.9
Federal Stimulus (Medicaid Match Rate)	97.0
Literary Fund	55.0
Lottery Profits (from FY2009)	9.9
Subtotal	\$ 740.3
Total of All Actions	\$ 1,353.2
Amount in Excess of Shortfall	\$ 2.7

Next Steps

- Begin to implement planned reductions as permitted by law.
- Develop base budget that includes reductions.
- Review agency/program spending needs.
- Continue to analyze spending for savings and efficiencies.
- Release Governor's proposed budget (caboose and biennium) on December 18.