



COMMONWEALTH of VIRGINIA

Office of the Governor

Jody M. Wagner
Secretary of Finance

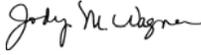
P.O. Box 1475
Richmond, Virginia 23218

July 17, 2008

MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Jody M. Wagner 

SUBJECT: Preliminary Year-End Close Revenue Data for Fiscal Year 2008

It is not customary for me to report preliminary year-end close revenue data to you; however, I believe that we are seeing data and trends that dictate that I provide you with information now rather than waiting until the official revenue numbers for fiscal year 2008 are available from final close. Basically, while we made the general fund revenue and transfer estimates in the budget with a small surplus (+5.4 million), it is my opinion that we must begin discussing the actions that should be taken to prudently manage a continued decline in general fund revenue growth based upon the circumstances of the current economy, recent revenue performance, and the implications of both on future revenues for the current biennium.

The preliminary revenue data for fiscal year 2008 will exceed the annual estimate by \$14.8 million. Preliminary revenue data reported by the Department of Accounts for fiscal year 2008, which ended on June 30, 2008, indicate that general fund revenue collections topped \$15.7 billion exceeding the annual estimate by less than a tenth of a percent. Total revenues increased approximately 1.3 percent over the prior year compared to forecasted growth of 1.2 percent.

In addition to preliminary general fund revenue collections, the total general fund resources available for appropriation consist of the general fund revenues plus transfers to the general fund from sources such as the net profits from the sale of lottery tickets and alcoholic beverages. Taken together, total preliminary general fund resources, revenues plus transfers, exceeded the forecast by approximately \$5.4 million for an annual increase of 1.2 percent, within 0.03 percentage points of the annual forecast.

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While the preliminary general fund revenue collections exceeded the forecast, the economic indicators for fiscal year 2008 revenues reflect a slowing economy. Declining employment levels, slower income growth, lower consumer confidence, and the continued downward trends in the housing market drove shortfalls in withholding, sales, and recordation taxes. The revenue losses from these areas were offset by a large surplus in corporate income tax collections due to strength in the defense and energy sectors. It is still early and many states have not reported final revenue collections, but from those that have, it appears that a pattern of slower growth is occurring, especially in income and sales tax revenues.

The two general fund revenue sources most closely tied to current economic activity – payroll withholding and retail sales taxes – experienced a meaningful slowdown in the rate of growth during the second half of fiscal year 2008. As a result, significant downward adjustments to the revenue forecast for the current biennial budget cycle that started July 1, 2008, are to be expected during the upcoming fall revenue forecasting process. State agencies are being advised to expect further budget adjustments to reflect any reductions in the general fund revenue forecast for the current fiscal year and the next fiscal year.

The final results of the fiscal year 2008 revenues will be released on August 18, 2008, when you address the joint meeting of the House Appropriations Committee, the House Finance Committee, and the Senate Finance Committee.