



Likely revenue shortfall prompts state to reassess economic outlook

Story **Comments**

Print Font Size:

Recommend 14 Tweet **G+**1 0

12

Posted: Sunday, July 3, 2016 10:30 pm

By MICHAEL MARTZ Richmond Times-Dispatch

Raises hang in the balance for state workers, school teachers and other public employees as Virginia collects and counts the last dollars coming into the treasury from the fiscal year that ended last week.

But while the size of an expected revenue shortfall will determine whether salaries increase Dec. 1, as scheduled, in the state budget that took effect Friday, Gov. Terry McAuliffe and the General Assembly plan to take a fresh look at revenue projections even if not required to do so by law.

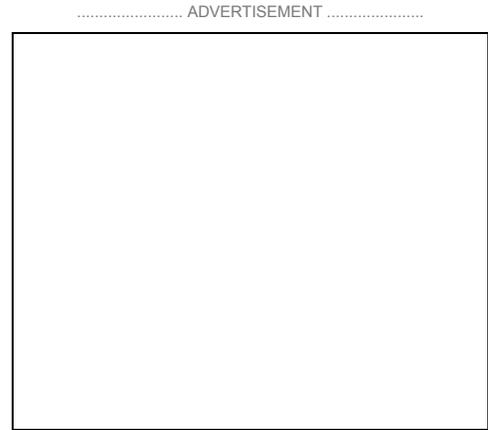
"I don't see a scenario where we're not going to have to at least informally look at the (revenue) forecast," Secretary of Finance Richard D. "Ric" Brown said last week.



THINKSTOCK

One reason is a growing disconnect between expanding employment and weak growth in income taxes withheld through payroll. That is especially evident in Northern Virginia, long the economic engine for the state budget but now faltering from growth in lower-paying jobs under the specter of potential federal spending cuts that could resume in the second year of the new budget.

"There is a high likelihood that sequestration will be back at full gale force in two



ADVERTISEMENT

POLITICS VIDEO



More videos:



LATEST NEWS

Chesterfield man accused of sexually abusing two girls, ages 8 and 10, he babysat

years," McAuliffe cautioned at a state Capitol news conference Friday, the beginning of the new fiscal year and budget biennium.

The governor will have support for a new revenue forecast in the Republican-controlled General Assembly. "It makes absolute sense to do a reforecast in August," House Appropriations Chairman S. Chris Jones, R-Suffolk, said Friday.

Senate Finance Co-Chairman Emmett W. Hanger Jr., R-Augusta, agreed. "I think that it's prudent to do that."

Under state law, the governor must begin a formal re-forecast of revenues if the major sources of money that finance the general fund budget — income, sales and corporate taxes — fall short of annual projections by 1 percent or more.

The process requires him to report the new state revenue estimates to the House Appropriations and Senate Finance committees by Sept. 1.

"We're on the bubble with that," Brown said.

The new forecast, developed in consultation with the Joint Advisory Board of Economists and the Governor's Advisory Council on Revenue Estimates, will shape the budget amendments that McAuliffe will present to the assembly in December for consideration during the next legislative session that convenes in January.

"Everybody in their right mind expects there to be a shortfall," said R. Ronald Jordan, executive director of the Virginia Governmental Employees Association. "The question is how much."

Jordan's association, representing more than 100,000 state employees, has much at stake in whether the revenue shortfall reaches the 1 percent threshold, or about \$170 million.

If it does, the budget requires money reserved for employee raises to be used instead to address the shortfall. "That is the trigger," Brown said.

The budget reserves \$190 million for raises of 3 percent for state employees and college faculty and 2 percent for state-supported local employees, such as sheriff's deputies and other constitutional offices, as well as money for the Virginia State Police to address salary compression for veteran employees whose pay hasn't kept pace with salaries for new hires.

It also includes \$134.3 million for the state's share of a 2 percent pay increase for teachers.

For state employees, the potential deferral of the raises is a blow to morale, Jordan said. "It's not great, but it's not in the tank, either."

Comptroller David Von Moll is expected to report the final revenue numbers to the governor on Friday. That will give the state time to collect and count money that arrives in the mail or by bank transfers through the middle of the week.

Whatever the size of the shortfall, it will ripple through the next two fiscal years by lowering the revenue base for spending and requiring cuts.

Chesterfield hires former Goochland County administrator Rebecca Dickson

Sen. Tim Kaine says he is not surprised by FBI's decision on Clinton emails

2 investment panel members resign, citing loss of confidence in Richmond Retirement System management

FBI Director: Clinton and aides 'extremely careless' in handling of classified information, but agency won't recommend charges

[More LATEST NEWS](#)

SUBMIT YOUR NEWS

We're always interested in hearing about news in our community. Let us know what's going on!

[Submit news](#)

SELECT YOUR LOCATION

[CHESTERFIELD](#)

[HANOVER](#)

[HENRICO](#)

[RICHMOND](#)

[CENTRAL VIRGINIA](#)

PUBLIC NOTICES



Richmond.com publishes important public notices that may affect the lives of Central Virginians. We fight for the public's right to know about government actions and information.

- Read important **public announcements** that may affect your neighborhood.

- Read notices about upcoming **trustee sales**

"I think there will be some adjustments," said Jordan, a lobbyist and former Appropriations budget analyst. "It will become all about choices."

The governor's office already asked state agencies last month to cut spending in the final five weeks of the fiscal year to roll into this next biennium, which is expected to help deal with the expected shortfall.

"It helps the agencies to get into position to absorb cuts" in the new fiscal year, Brown said.

Virginia last went through this process two years ago, when a \$439 million shortfall in fiscal 2014 ballooned into a \$2.4 billion projected gap over three years. Revenues rebounded with a vengeance by the second half of fiscal 2015 and produced a big budget surplus.

But the source of the problem then was clear: a sharp drop in estimated income taxes paid by professionals who don't withhold from their paychecks or who pay taxes on investment income.

The state had over-estimated those revenues because of a surge the previous year that had been fueled by stock sales in reaction to an increase in the federal capital gains tax rate.

This time it's different. Budget policymakers, both in the administration and the assembly, are puzzling over the slow growth in income taxes withheld from payroll. Those taxes account for about two-thirds of the revenue that finances the \$40 billion, two-year general fund budget.

"It's the bread and butter," Jones said.

Withholding taxes also are a good indicator of economic growth, reflected in larger payrolls, but a drop in the unemployment rate to 3.8 percent in May and other signs of economic improvement didn't translate into income tax revenue.

Through May, payroll withholding grew by 2.5 percent, or well behind the annual forecast of 4.1 percent. Collections in May grew just 1.4 percent over the same month the previous year, even with an extra payroll deposit day.

"Why is there a disconnect between job growth and payroll withholding?" Appropriations Director Robert P. Vaughn asked in a presentation last week to the Virginia Business Council.

His answer, like Brown's in a presentation to Senate Finance the previous week, was that the new jobs don't pay as much in wages as the ones they're replacing, especially in Northern Virginia, which he said "represents approximately 34 percent of the job market but accounts for over 40 percent of the income tax dollars."

By the end of June, average weekly wages for workers in Virginia had fallen 1.35 percent from their peak in August, Vaughn said.

In Northern Virginia, where wages are about 30 percent higher than the rest of the state, the average wage had declined 2.5 percent from the August peak. The decline was even sharper, 3.3 percent, in the professional and business services sector that is the region's strength.

around the region.

- Read information about local governments **seeking bids** on projects.

MEET THE POLITICS TEAM

Paige Mudd
Editor



Brice Anderson
Managing Editor



Andrew Cain
Politics Editor



Jeff Schapiro
Political Columnist



Jim Nolan
Congress, State Senate



Graham Moomaw
Governor, House of Delegates



Karin Kapsidelis
Higher Education



Robert Zullo
Transportation, Legal industries



..... ADVERTISEMENT

Carreras Jewelers
Capture the Moment

Shop Now

Brown said the strongest job growth in the professional and business services sectors came in lower-wage positions.

“High-paying professional and business services jobs are experiencing small wage gains,” he told the Senate committee.

In addition, Vaughn said many of the new jobs created were part time — 20,700 more this year than the last. “What we have is an economy that has been growing a lot of part-time employees,” he said in an interview.

These are all issues for the McAuliffe administration and assembly money committees to consider when they look at the revenue forecasts in the current budget, which projects a total growth from all sources of 3.2 percent in the first year and 3.8 percent in the second.

Payroll withholding is forecast to grow about 4 percent each year, or slightly lower than last year’s projection.

“In the short term, we may be more in line with two and a half percent growth,” Hanger said. “If that’s where it’s at, we’ll have to plan accordingly.”

mmartz@timesdispatch.com

(804) 649-6964

Posted in [Virginia Politics](#) on *Sunday, July 3, 2016 10:30 pm.*

Recommend 14

Tweet

 0

12

Similar Stories

- [Supreme Court settles federal law, but ethics questions remain for state lawmakers](#)
- [Virginia looks at new opportunities to grow spaceport at Wallops](#)

Most Read

- [Richmond Fourth of July fireworks guide 2016](#)
- [Stone Brewing protests first real estate tax assessment; Richmond could be required to rebate payment](#)
- [What to do in Richmond over Fourth of July weekend](#)
- [Richmond man wins \\$1 million with Powerball ticket bought at Carytown 7-Eleven](#)
- [Holmberg: Too many of Richmond's murals send ugly message](#)

1 Comment

Sort by **Newest**



Add a comment...



Ron Melancon · President\Founder at [Http://www.dangeroustrailers.org/](http://www.dangeroustrailers.org/)

Enforce the car tax an all the uncollected taxes But nooooooo our stupid political leaders simply add more taxes but that makes more people find ways to cheat

[Like](#) · [Reply](#) · Jul 4, 2016 10:10am



Selous Serena Camp
Selous Game Reserve

From **\$752**

[Book now](#)



Hotel Quinta Mirabel
Funchal

From **\$334**

[Book now](#)

SECTIONS

[Home](#)
[News](#)
[Business](#)
[Entertainment](#)
[Events Calendar](#)
[Food & Drink](#)
[Sports](#)
[Outdoors](#)
[Viewpoints/Opinion](#)
[All Sections](#)

CLASSIFIEDS

[Today's Print Ads](#)
[Classifieds](#)
[Automotive](#)
[Real Estate](#)
[Employment](#)
[Find Local](#)

SERVICES

[Advertise With Us](#)
[Contact Us](#)
[Business Directory](#)
[Buy Photos](#)
[Email Newsletters](#)
[Subscription Services](#)
[Shop Our Products](#)
[PopMounts & Reprints](#)
[Want to use our content?](#)
[Work With Us](#)

ALL ACCESS

[Sign Up](#)
[Manage Subscription](#)
[E-Edition](#)
[Change Password](#)
[Report an Issue](#)

CONTACT US

Phone number: 804-649-6000
Address: 300 E. Franklin St.
Richmond, VA 23219

SOCIAL

SEARCH

Search in:

- | | |
|------------------------------------------|---------------------------------------------|
| <input checked="" type="checkbox"/> All | <input type="checkbox"/> Life |
| <input type="checkbox"/> Business | <input type="checkbox"/> News |
| <input type="checkbox"/> Classifieds | <input type="checkbox"/> Outdoors |
| <input type="checkbox"/> Entertainment | <input type="checkbox"/> Sports |
| <input type="checkbox"/> Events Calendar | <input type="checkbox"/> Travel |
| <input type="checkbox"/> Food+Drink | <input type="checkbox"/> Viewpoints/Opinion |