

## VIRGINIA BRACES FOR LAYOFFS



Good news, and preparing for bad news, in the state of Virginia. The general tax collection records in the state show that for the last 13 months of collections the tax revenue has grown for this state. That news is not only good, but also very rare when you consider the current economic situation that most states are in. Add to that the fact that back in August the states governor, Bob McDonnell, was able to announce the second consecutive surplus in the state budget for the end of the fiscal year next summer. That's the good news. After that, it all gets a little bit confusing. Gov. McDonnell is now asking state agencies to get ready for possible spending cuts, some of them as high as 6 percent. Is that confusing? Well, a lot of that depends on what is going on in the world outside of Virginia. The overall gross domestic product has turned out to be much weaker than analysts had hoped. Unemployment is high, in some places up to double-digit numbers. Credit issues for multiple nations have arisen and there is a serious amount of fear that the world may end up in a back-to-back "double-dip" recession that will make an already unstable situation much worse. Bringing that back to the state level, all of these factors mean that when the US congress begins its plans for righting the nations economic situation the plans will most likely include drastic cuts to the amount of funding given to states. Since no one knows what will happen when the debt-reduction super committee begins its work later this year these kinds of pre-cautions are a bit practical and a bit making sure that everyone is ready for the possible cuts that are coming down the line. In the best-case scenario they will be prepared for nothing, but in the worst case at least employees will not be scrambling to cut 6% from the budget at the last second. "In the face of all that, you can't not recommend some precaution," Finance Secretary Ric Brown said to The Associated Press last week. He went on to explain how these trends begin to affect even healthy state budgets. "So you've got this deteriorating economic pattern, and if you play that out, you see a drop in sales and you see some employers react to that," Brown said. The cycle goes something like this. When sales lag in a state that begins to impact the bottom line, and that leads to layoffs. Those layoffs further remove the sales numbers from where they should be. This removes a potent source of state revenue from the budget. In general the reduction in business tax (including payroll taxes) and sales tax accounts for a loss of up to four-fifths of a states tax revenue. In this case however the notices to state agencies are fairly scary, as agencies have been required to make budget cuts under all three of the former governors, including the term of this governor.

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