Richard D. Brown
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

COMMONWEALTH of VIRGINIA

Office of the Governor

January 15, 2010

MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Richard D. Brown

SUBJECT: December Revenue Data

This month's revenue report contains general fund revenue collections for the first six months of fiscal year 2010. The report incorporates the revised general fund revenue forecast included in the introduced budget. The revised forecast used with the budget introduced on December 18 reflects a further downward revision from the August 2009 interim forecast. With the downward revenue revisions in December, total general fund revenues are now projected to decline by 2.7 percent in fiscal year 2010.

December and January are significant months for revenue collections. However, growth can be distorted during this time of year due to several timing issues. In December, in addition to normal monthly collections of withholding and holiday sales taxes, quarterly estimated payments are due from most corporations and some fourth quarter individual estimated payments due January 15 are received. Also, some withholding payments can be delayed by a larger volume of mail over the holidays, pushing some December payments into January. Finally, the bulk of sales tax collections from the holiday shopping season will be received in January. Due to all of these factors, the months of December and January must be analyzed together to form a complete and accurate assessment of revenue growth. In addition to these seasonal factors, the tax amnesty program, which ended December 5, is distorting growth in most major sources.

Total general fund revenue collections grew 5.5 percent in December, the first positive monthly growth in 16 months. The tax amnesty program, which ended December 5, provided much of the growth. Adjusting for amnesty, revenues declined 1.8 percent for the month. Collections of withholding, sales, corporate, and recordation taxes increased for the month, while nonwithholding receipts and individual refunds were about the same as December of last year. On a year-to-date basis, total revenues fell 4.4 percent, trailing the revised annual forecast of a 2.7 percent decline.

National Economic Indicators

Most national indicators suggest that economic output is expanding, although growth is likely to remain weak for some time, as the slack labor market, lower wealth, and tight credit constrain consumers.

- Economic growth is somewhat slower than previously reported. According to the final estimate, real GDP grew 2.2 percent in the third quarter of 2009, substantially lower than the advance estimate of 3.5 percent.

- After a slight up tick in November, labor market conditions continued to deteriorate in December. Following a gain of 4,000 jobs in November, payroll employment fell by 85,000 jobs in December. Employment fell in construction, manufacturing, and wholesale trade, while temporary help services and health care added jobs. In a separate report, the unemployment rate was unchanged at 10.0 percent in December, mainly due to a sharp decrease in the labor force.

- Although initial claims for unemployment increased by 1,000 to 434,000 during the week ending January 2, claims remain on a downward trend, with the four-week moving average falling from 461,000 to 450,000. Initial claims have fallen 36 percent from their March 2009 peak of 674,000.

- The Conference Board's index of leading indicators rose 0.9 percent to 104.9 in November, its eighth consecutive monthly increase. Six of the ten components contributed positively to the index. The growth in the index strongly suggests the economy is improving.

- The Conference Board's index of consumer confidence rose from 50.6 to 52.9 in December, the second consecutive monthly gain. An increase in the expectations component offset a decline in the current conditions component. Although the gain is a positive sign, confidence remains at historical lows.

- The recovery in the manufacturing sector continued in December. The Institute of Supply Management index rose by 2.3 points in December, from 53.6 to 55.9. The index has stayed above the expansionary threshold of 50 for five consecutive months, and is at its highest level since April 2006.

- Rising energy prices drove inflation higher in November -- the CPI rose 0.4 percent. Core inflation was unchanged for the month and stands 1.7 percent above November of last year.

- At its December meeting, the Federal Reserve announced it will keep the federal funds target rate in the 0.0 to 0.25 percent range "for an extended period."

Virginia Economy

Although Virginia continues to lose jobs, the pace of job losses has slowed. Payroll employment fell by 2.0 percent in November, following a 2.3 percent decline in October, the fifteenth consecutive monthly drop. Northern Virginia posted a gain of 0.1 percent, Hampton Roads fell 0.4 percent, and employment in the Richmond-Petersburg area fell 1.8 percent in November. The unemployment rate in Virginia was unchanged at 6.4 percent in November, and remains below the June high of 7.3 percent.

The Virginia Leading Index rose 0.2 percent in November for its seventh consecutive gain. All three components -- initial claims for unemployment, building permits, and auto registrations -- contributed positively to the index. The leading index rose in November in all eleven metropolitan areas in the Commonwealth except Lynchburg, which declined 0.1 percent.

December Revenue Collections

Total general fund revenue collections grew 5.5 percent in December, the first positive monthly growth in 16 months. However, the tax amnesty program contributed to growth in most major revenue sources. Adjusting for amnesty, revenues fell 1.8 percent for the month. On a year-to-date basis, total revenues fell 4.4 percent, trailing the revised annual forecast of a 2.7 percent decline.

Net Individual Income Tax (64% of general fund revenues): Through the first six months of the fiscal year, collections of net individual income tax fell by 5.9 percent from the same period last year, close to the revised annual estimate of a 5.6 percent decline. Performance in each component of individual income tax is as follows:

> ***Individual Income Tax Withholding (66% of general fund revenues)***: Collections of payroll withholding taxes grew 0.7 percent in December. Year-to-date withholding collections have declined by 2.3 percent over the same period last year, trailing the projected annual growth rate of a 0.2 percent increase.
>
> ***Individual Income Tax Nonwithholding (13% of general fund revenues)***: Collections in this source fell 0.4 percent in December. Adjusted for amnesty, nonwithholding receipts declined 16.7 percent for the month. Year to date, collections through the first half of the year fell 18.6 percent from the same period last year, compared with the revised annual estimate of a 21.5 percent decline.
>
> December and January are significant months for collections in this source, and results can be distorted by the timing of payments. Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2009. A clearer

assessment of growth in this source will occur at the end of January, when all quarterly payments have been received.

Individual Income Tax Refunds: TAX issued $58.4 million in refunds in December compared with $58.9 million last December. Over the first six months of the fiscal year, refunds have grown 24.1 percent from the same period last year, compared with the annual estimate of 2.6 percent growth.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes, reflecting November sales, rose 9.8 percent in December. Adjusted for amnesty, however, collections fell 3.1 percent for the month. On a year-to-date basis, collections have fallen 3.4 percent, compared with the annual estimate of 4.1 percent growth and the economic forecast (removing policy adjustments) of a 4.1 percent decline. (Major policy adjustments include amnesty and the accelerated sales tax program.)

As with individual nonwithholding, January receipts are needed to more accurately assess growth in this source because a large part of holiday sales tax collections will be received in January.

Corporate Income Tax (5% of general fund revenues): Collections of corporate income tax were $138.1 million in December, compared with $82.3 million last December, a 67.7 percent increase. Adjusted for amnesty, corporate collections grew 22.8 percent from December 2008. On a year-to-date basis, collections in this source have risen 33.7 percent, far ahead of the revised annual forecast of 8.8 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 11.0 percent in December. On a year-to-date basis, collections are down 0.9 percent, ahead of the forecast of a 9.6 percent decline.

Other Revenue Sources

The following list provides data on December collections for other revenue sources:

	Year-to-Date	Annual Estimate
Insurance Premiums (2% GF revenues)	-0.6%	0.2%
Interest Income (1% GF revenues)	-33.2%	10.8%
ABC Taxes (1% GF revenues)	0.4%	0.9%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 43.7 percent in December – $24.6 million compared with $43.7 million last December.

Collections in Other Revenue drove the decline. For the fiscal year-to-date, collections in this category fell 15.6 percent from the same period in fiscal year 2009, lagging the annual estimate of a 4.2 percent decline.

Summary

Total general fund revenue collections grew 5.5 percent in December, the first positive monthly growth in 16 months. Adjusting for the impact of amnesty, revenues fell 1.8 percent for the month. On a year-to-date basis, total revenues fell 4.4 percent, trailing the revised annual forecast of a 2.7 percent decline. Total revenues can decline 1.1 percent over the second half of the fiscal year and attain the revised December forecast. December and January are both important months for revenue collections. During this time of year, several factors can influence the flow of payments and significantly affect monthly growth rates. Thus, December and January receipts must be considered together to get a clearer picture of revenue growth.