



Revenue Collections Update and February Reforecast

House Appropriations Committee

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February 16, 2009

Presentation

- January Revenue Collections
- 2009 Mid-Session Forecast

National and State Economic Indicators

- National economic indicators continue to depict a deepening recession.
- Real GDP fell at an annual rate of 3.8 percent in the fourth quarter of 2008, according to the advance estimate. Consumer spending, business investment, and investment in housing all declined in the fourth quarter.
- Payroll employment declined by 598,000 jobs in January, the largest one-month decline since December 1974. Over the last three months, nearly 1.8 million jobs have been lost, the worst three-month loss since 1945.
- The national unemployment rate rose to 7.6 percent from 7.2 percent, the highest rate since 1992.
- The Virginia labor market contracted in December, losing 31,100 jobs compared with December of last year, the first year-over-year decline since June 2003. Payroll employment fell 0.8 percent for the month. Northern Virginia posted a decline of 0.1 percent in December, while jobs grew by 1.0 percent in Hampton Roads. Employment in the Richmond-Petersburg area fell 1.0 percent, its third monthly decline.
- The Virginia unemployment rate rose from 4.6 percent to 5.2 percent in December. In December of 2007, the unemployment rate was 3.2 percent.

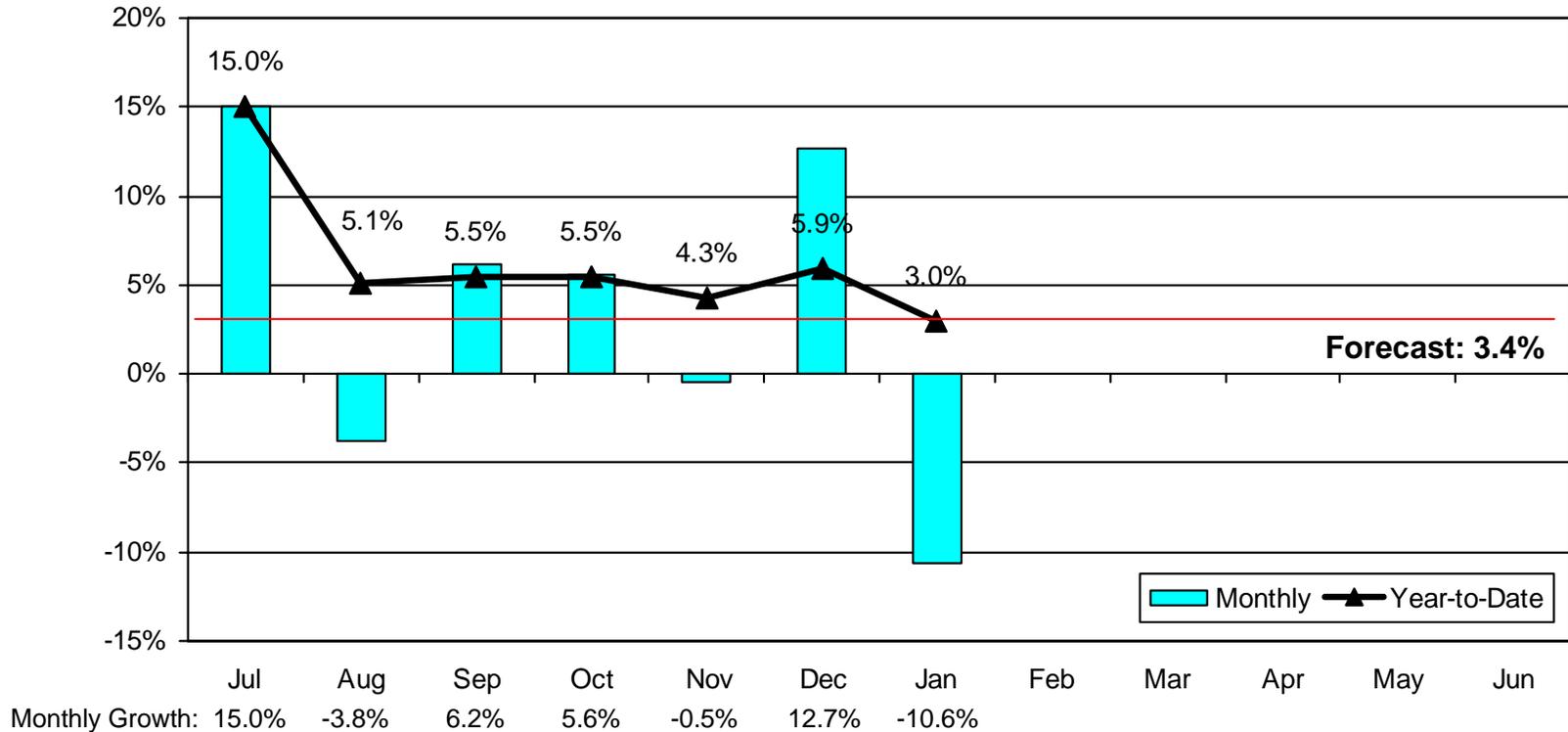
National and State Economic Indicators

- Conditions in the manufacturing sector improved slightly in January. The Institute of Supply Management index rose 2.7 points to 35.6. It remains at a very low level, however, indicating that the sector is still contracting.
- The Conference Board's index of leading indicators rose 0.3 percent to 99.5 in December, the first increase since last April and the largest monthly gain since July 2007. The increase, however, was driven by the sharp increase in the money supply engineered by the Federal Reserve to stimulate the economy.
- Consumer confidence continues to deteriorate -- the Conference Board's index of consumer confidence fell in January from 38.6 to 37.7, a historic low. Both the current conditions and expectations components fell.
- The Virginia Leading Index fell 0.5 percent in December, the eighth decline in the last twelve months. All three components – auto registrations, building permits, and initial unemployment claims – contributed to the decline.
- At its January meeting, the Federal Reserve left the federal funds target rate in the range of 0.0 percent to 0.25 percent, stating that, “the “economy has weakened further” from the previous meeting.

January Revenue Collections

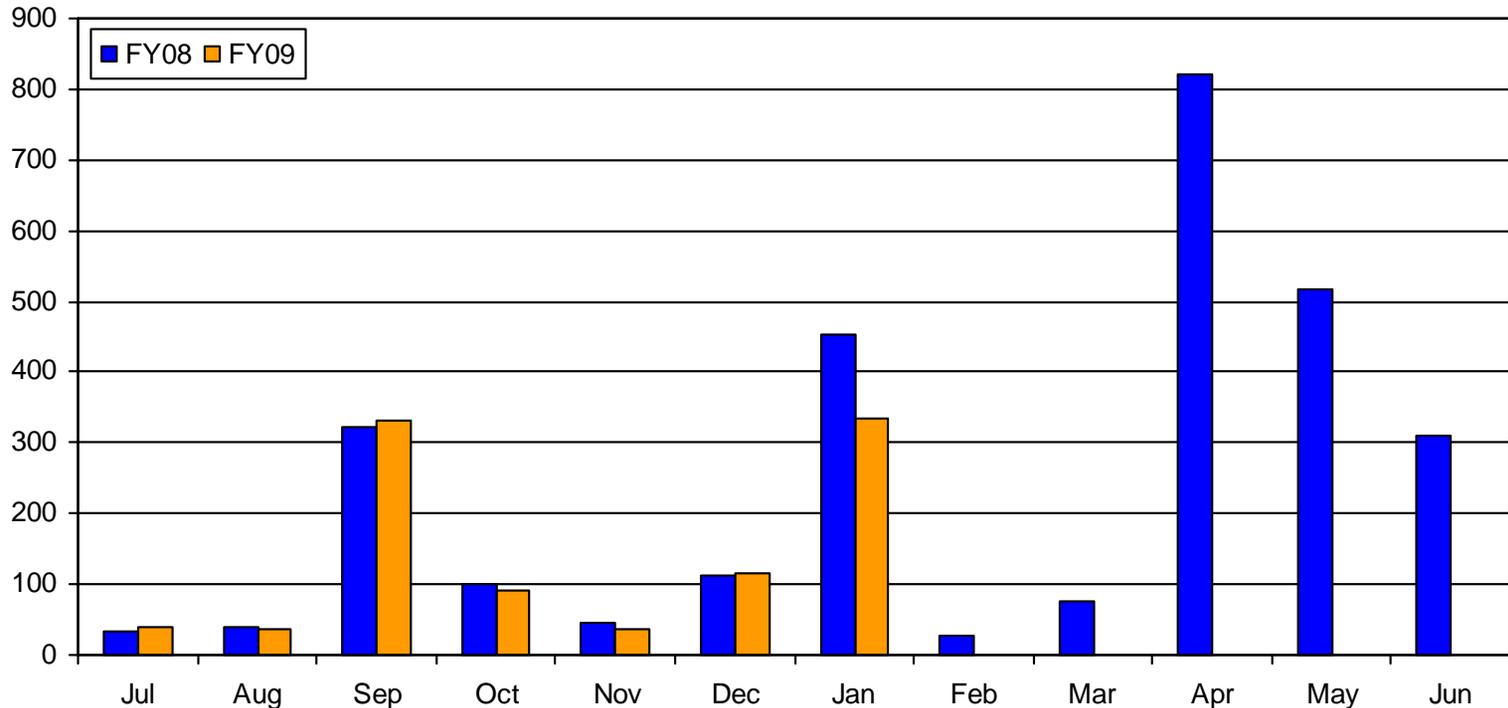
- January is a significant month for revenue collections. Individual estimated payments, sales taxes on December sales, and corporate income tax payments from large retailers are due this month.
- January revenues fell 15.0 mainly due to an unprecedented drop in individual estimated payments due January 15 and a 10.6 percent decline in payroll withholding as the month had 2 less deposit days.
- On a year-to-date basis, total revenue fell 5.5 percent. The annual rate has now fallen below the annual forecast of a 4.8 percent decline.
 - The 5.5 percent decline in revenue collections through January represents the largest drop on record – more than a percentage point larger than the fiscal year 2002 decline and almost a two percentage point decline larger than fiscal year 1991.
 - All major sources are trailing their respective forecasts.

Growth in Withholding Tax Collections FY09 Monthly and Year-to-Date



- With two less deposit days, collections of payroll withholding taxes fell 10.6 percent in January.
- Year-to-date withholding growth is 3.0 percent, trailing the projected annual growth rate of 3.4 percent for the first time this year.

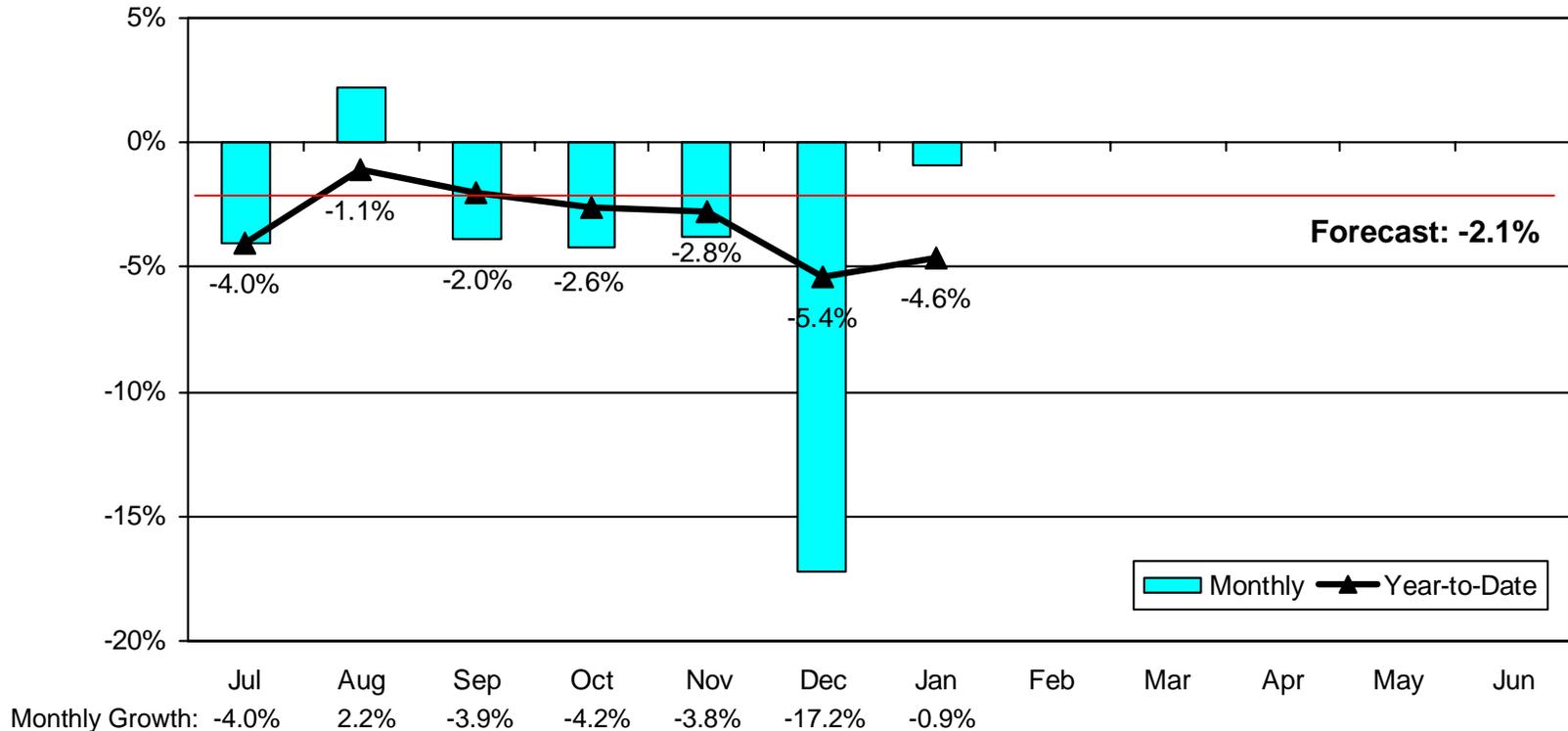
Nonwithholding Tax Collections FY08 and FY09 Monthly



- Nonwithholding collections fell 26.1 percent in January.
- Taken together, December and January collections declined 20.3 percent, exceeding the declines in the two previous recessions.
- Through January, collections fell 11.1 percent compared with the annual estimate of an 8.4 percent decline.

Growth in Sales Tax Collections

FY09 Monthly and Year-to-Date



- Sales tax collections for the main holiday shopping season (December-January collections) declined 8.8 percent, the largest drop on record.
 - This was below the December forecast of a 3.0 percent decline and national expectations of a 2.5 percent contraction.
- On a year-to-date basis, collections have fallen 4.6 percent, behind the annual estimate of a 2.1 percent decline.

Corporate Income Tax Collections

- Through January, collections in corporate income taxes have fallen 18.6 percent from the same period last year
 - Slightly trails expectations of a 15.2 percent decline.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 40.1 percent in the month of January, and are down 36.2 percent on a year-to-date basis.
- On a year-to-date basis, collections in this source are down 29.1 percent from the same period last year, close to the annual forecast of a 26.9 percent decline (adjusted for the transfer to transportation of \$0.03 per \$100 of recordation per HB 3202).

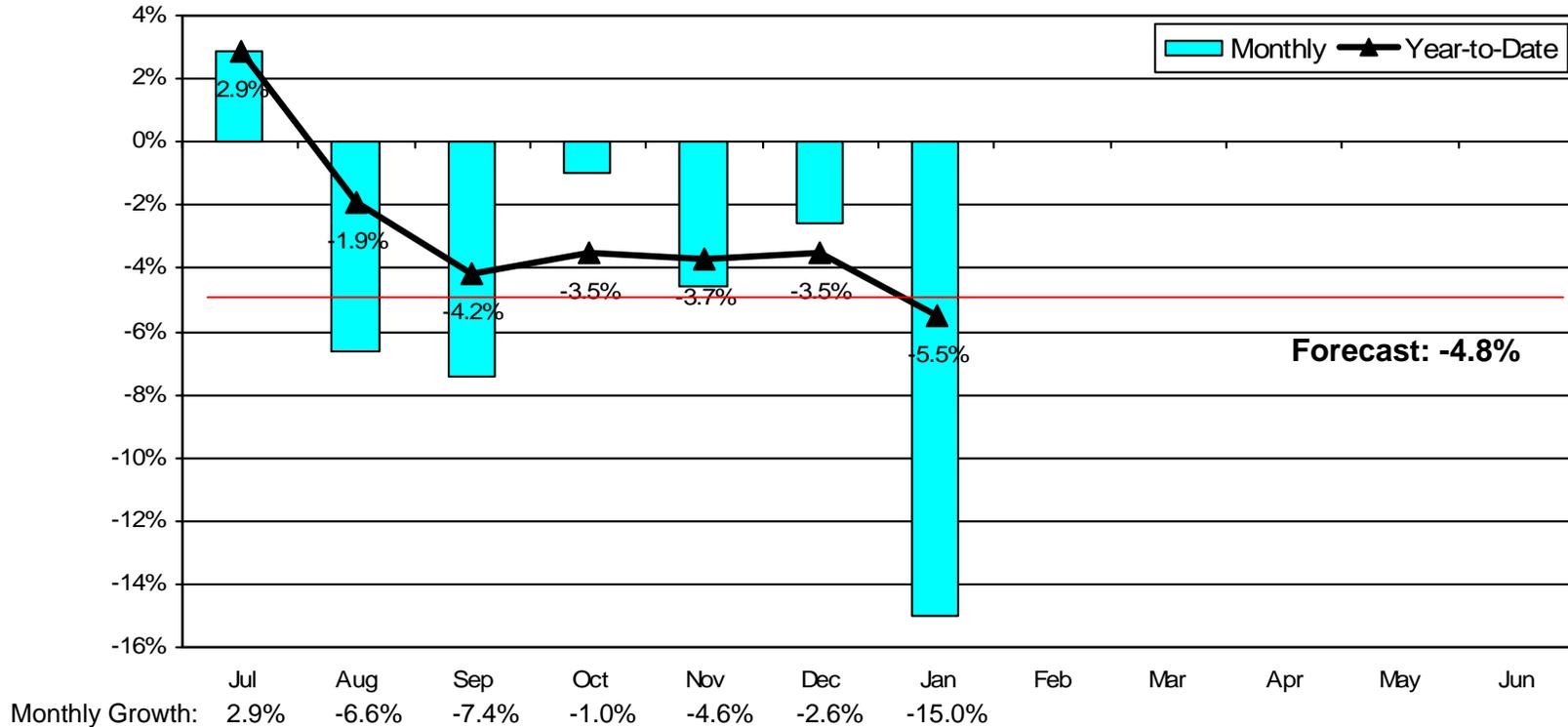
Summary of Fiscal Year 2009 Revenue Collections

July through January

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>December Estimate</u>	<u>Variance</u>
Withholding	61.5 %	3.0 %	3.4 %	(0.4) %
Nonwithholding	17.5	(11.1)	(8.4)	(2.7)
Refunds	(12.1)	21.0	8.1	12.9
Net Individual	66.9	(0.5)	(0.7)	0.2
Sales	20.1	(4.6)	(2.1)	(2.5)
Corporate	4.6	(18.6)	(15.2)	(3.4)
Wills (Recordation)	2.0	(36.2)	(34.7)	(1.5)
Insurance	1.7	(54.3)	(35.1)	(19.2)
All Other Revenue	4.8	(26.5)	(21.5)	(5.0)
Total	100.0 %	(5.5) %	(4.8) %	(0.7) %

Note: Adjusted for the repeal of the estate tax and transfers to transportation from insurance and recordation per HB 3202, year-to-date collections have declined 2.7 percent compared with the forecast of a 2.8 percent decline.

Growth in Total General Fund Collections FY09 Monthly and Year-to-Date



- Year-to-date total general fund revenues have declined 5.5 percent through January.
 - Annual collections have now fallen below the projected annual decline of 4.8 percent.

Presentation

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2009 Mid-Session Revenue Forecast

- January collections for indicate collections declined sharply in the last half of the month.
 - Total general fund collections dropped from -3.5 percent through December to -5.5 percent through January.
- Significant deterioration in payroll withholding, individual payments, and sales tax collections observed.
- General fund revenue estimate is revised downward by \$403.2 million in FY 2009 and \$418.3 million in FY 2010.
 - Withholding: from 3.4 percent in FY 2009 to 2.5 percent and no change in FY 2010.
 - Nonwithholding: from -8.4 percent to -18.0 percent in FY 2009 and an additional -0.5 percent in FY 2010.
 - Sales Tax: from -2.1 percent to -3.7 percent and no change in FY 2010.

2009 Mid-Session Revenue Forecast

**Mid-Session Revenue Forecast (General Fund Difference from December) by
Major Revenue Source**
(\$\$ in Millions)

	FY 2009	FY 2010	Total
Individual Withholding	-\$85.8	-\$88.8	-\$174.6
Individual Nonwithholding	-\$274.3	-\$286.6	-\$560.9
Refunds	\$10.6	\$11.2	\$21.8
Sales and Use	-\$50.0	-\$50.4	-\$100.4
Corporate Income	\$0	\$0	\$0
Recordation	\$0	\$0	\$0
Transfers (sales tax: 0.25%)	-\$3.7	-\$3.7	-\$7.4
Total:	-\$403.2	-\$418.3	-\$821.5

2009 Mid-Session Revenue Forecast

- American Recovery and Reinvestment Act of 2009 will provide additional resources to offset necessary revenue reductions
 - Increased federal Medicaid reimbursement (\$808.2 million)
 - Fiscal Stabilization Fund (\$216.0 million)

	FY 2009	FY 2010	Total
Mid-Session Forecast Adjustment (GF)	-\$403.2	-\$418.3	-\$821.5
Net Federal Stimulus Medicaid Match	\$324.7	\$483.5	\$808.2
Federal Stimulus State Fiscal Stabilization Fund	\$108.0	\$108.0	\$216.0
Total:	\$29.5	\$173.2	\$202.7

Note: The Net Federal Stimulus Medicaid Match reflects adjustments for meeting maintenance of effort requirements and funding required for increased Medicaid utilization.