



December Revenue Update

A Briefing for the Senate Finance Committee

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Topics for Discussion

- General Fund Revenue Collections, First Half of Fiscal Year 2009
- Next Steps

National and State Economic Indicators

- Most current indicators are at recession levels, with some at historical lows. Tight consumer and corporate credit, a flagging labor market, and a slowing global economy will continue to be a drag on growth.
- Real GDP fell at an annual rate of 0.5 percent in the third quarter, according to the final report. Consumer and business spending fell significantly.
- Payroll employment declined by 524,000 jobs in December, the largest one-month decline since December 1974. The labor market shed jobs every month in 2008, for a total loss of 2.59 million jobs.
- The national unemployment rate rose to 7.2 percent in December from 6.8 percent, the highest rate since January 1993.
- In Virginia, payroll employment growth slowed in November, increasing only 0.1 percent for the month after increasing 0.5 percent on average over the past four months.
 - Northern Virginia posted job growth of 0.8 percent in November.
 - Jobs grew by 1.5 percent in Hampton Roads, and
 - Richmond-Petersburg area shed jobs for the second month in a row, declining 0.6 percent.
- The Virginia unemployment rate rose from 4.2 percent to 4.6 percent in November.

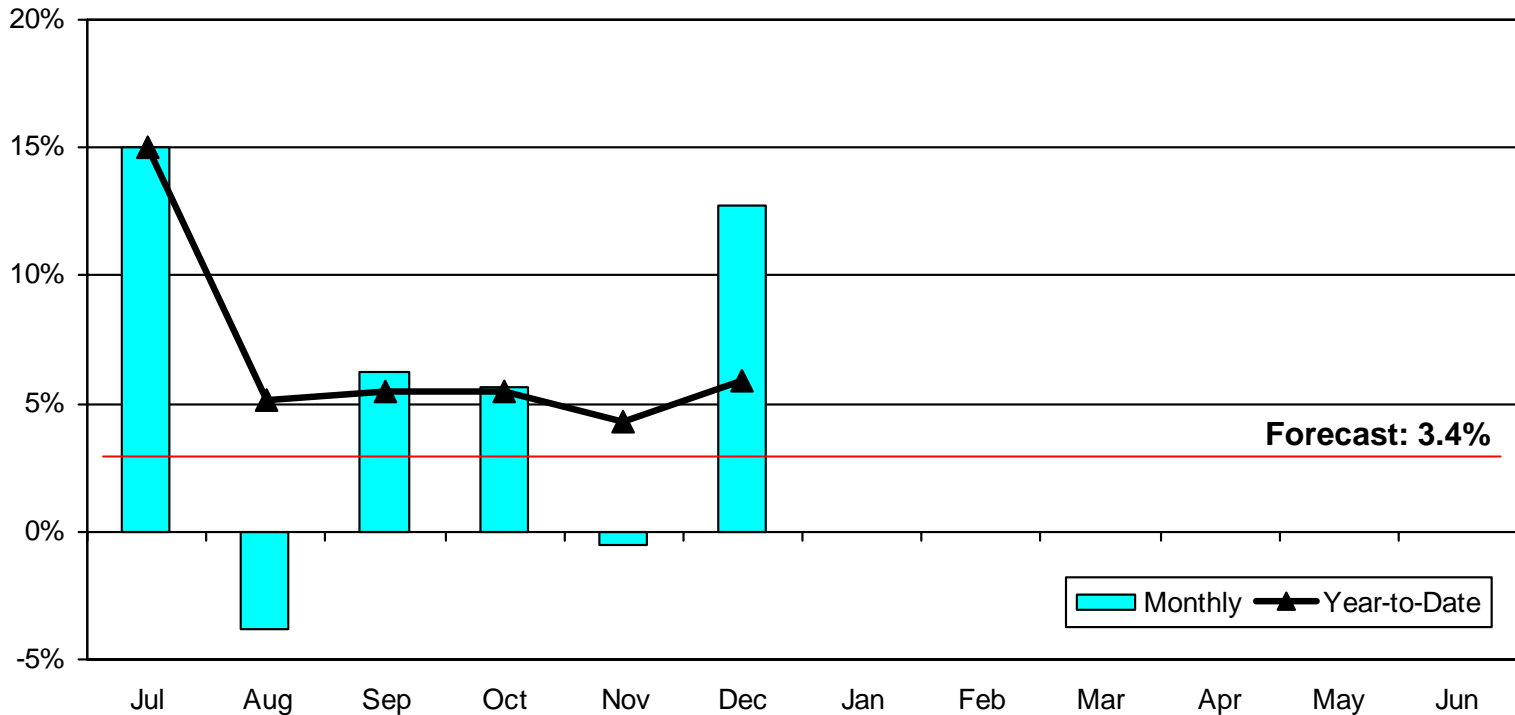
National and State Economic Indicators

- The manufacturing sector contracted for the fifth consecutive month in December. The Institute of Supply Management index fell 3.8 points to 32.4, its lowest level since 1980.
- The Conference Board's index of leading indicators fell 0.4 percent to 99.0 in November. The leading index has fallen more than in the 2001 recession and almost as much as in the 1990-1991 recession.
- The Conference Board's index of consumer confidence fell in December from 44.7 to 38.0, the lowest level on record since 1969.
 - Both the current conditions and expectations components fell.
- The Virginia Leading Index fell 0.6 percent in November, the seventh decline in the last twelve months.
 - All three components – auto registrations, building permits, and initial unemployment claims – contributed to the decline.
- The federal funds rate is at its lowest level ever. At its December meeting, the Federal Reserve lowered the federal funds rate from 1.00 percent to a target of 0.0 to 0.25 percent.

December Revenue Collections

- 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, quarterly estimated payments are due from most corporations and some fourth quarter individual estimated payments due January 15 are received.
 - Some withholding payments can be delayed by a larger volume of mail over the holidays, pushing some December payments into January.
 - The number of shopping days in November following Thanksgiving can affect November and December sales tax receipts.
- Due to all these factors, the months of December and January must be analyzed together to form a complete and accurate assessment of revenue growth.
- In December, general fund revenues fell 2.6 percent despite two additional deposit days compared to December 2007. On a year-to-date basis, revenues fell 3.5 percent compared to the revised annual forecast of a 4.8 percent decline.

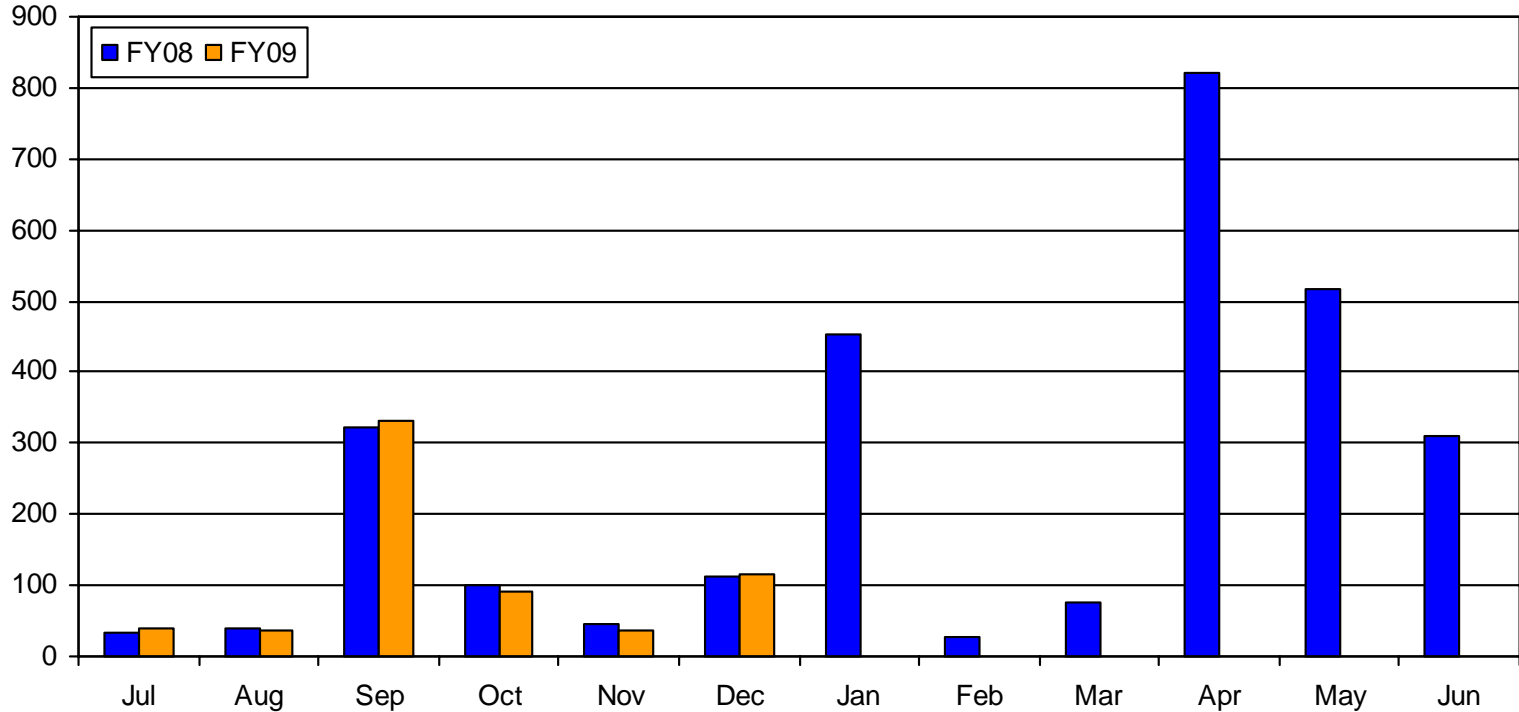
Growth in Withholding Tax Collections FY09 Monthly and Year-to-Date



- With two additional deposit days, collections of payroll withholding taxes grew 12.7 percent in December.
- Year-to-date withholding growth is 5.9 percent, ahead of the projected annual growth rate of 3.4 percent.

Nonwithholding Tax Collections

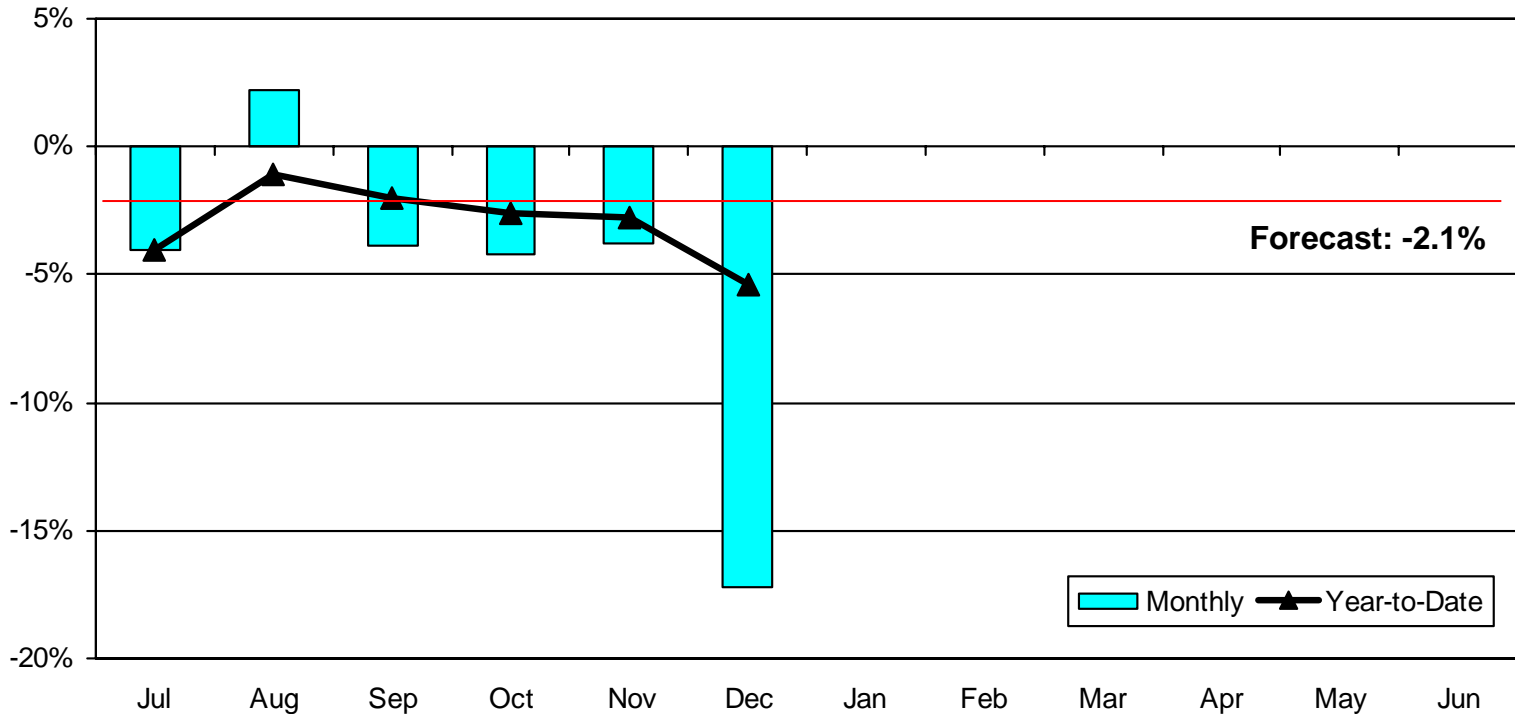
FY08 and FY09 Monthly



- Nonwithholding collections increased 3.2 percent in December.
- Through December, collections fell 0.7 percent compared with the annual estimate of an 8.4 percent decline.
- Over the last 5 years about 77 percent of all nonwithholding receipts are collected in the last six months of the fiscal year.

Growth in Sales Tax Collections

FY09 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting November sales, fell 17.2 percent in December.
 - The main reason for the decline was that November 2007 contained eight post-Thanksgiving holiday shopping days whereas November 2008 contained only three.
- On a year-to-date basis, collections have fallen 5.4 percent, behind the annual estimate of a 2.1 percent decline.

Corporate Income Tax Collections

- Collections in corporate income tax fell 27.8 percent in December.
- On a year-to-date basis, collections in this source have fallen 21.0 percent from the same period last year, trailing expectations of a 15.2 percent decline.

Recordation Tax Collections

- Recordation tax collections continue to decline with the collapse in housing.
- On a year-to-date basis, collections in this source are down 28.6 percent from the same period last year, close to the annual forecast of a 27.3 percent decline (adjusted for the transfer to transportation of \$0.03 per \$100 of recordation per HB 3202).

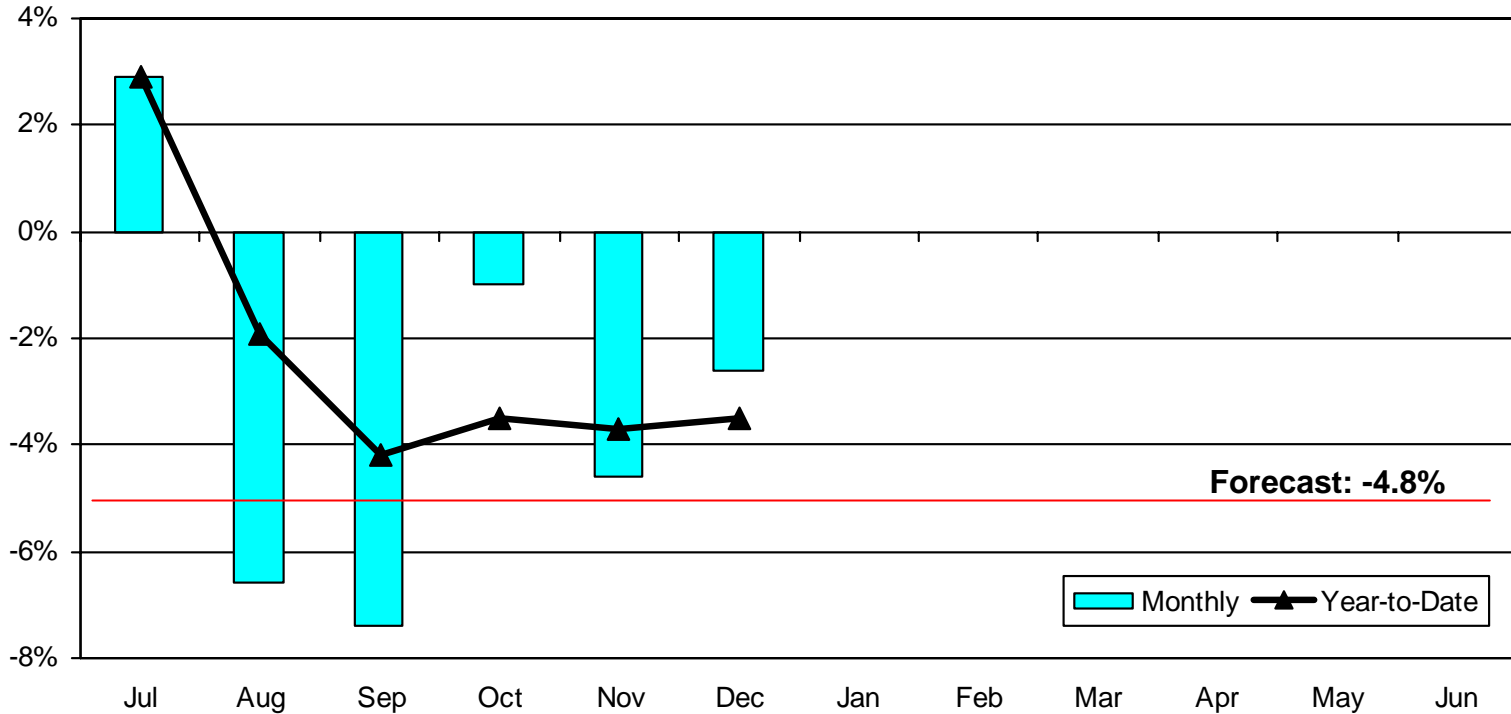
Summary of Fiscal Year 2009 Revenue Collections

July through December

<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 %	5.9 %	3.4 %	2.5 %
Nonwithholding	17.5	(0.7)	(8.4)	7.7
Refunds	(12.1)	18.0	8.1	9.9
Net Individual	66.9	4.4	(0.7)	5.1
Sales	20.1	(5.4)	(2.1)	(3.3)
Corporate	4.6	(21.0)	(15.2)	(5.8)
Wills (Recordation)	2.0	(35.7)	(34.7)	(1.0)
Insurance	1.7	(53.7)	(35.1)	(18.6)
All Other Revenue	4.8	(28.9)	(21.5)	(7.4)
Total	100.0 %	(3.5) %	(4.8) %	1.3 %

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 0.3 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 growth is -3.5 percent, ahead of the projected annual growth rate of -4.8 percent.
- Historically, about 53 percent of the total general fund is collected in the last six month of the fiscal year.

Observations: Year-to-Date General Fund Revenue Collections

- Total general fund revenue collections year-to-date reflect the favorable pattern of withholding collections given that withholding comprises 61% of general fund revenue.
- Because of this trend, there is nothing in the data through December to warrant a change to the forecast.
- The biggest risk to the forecast is non-withholding.
 - 70 percent of this revenue source is collected in the last six months of the fiscal year.
 - We will get our first real glimpse of meaningful data in the January collection report.
 - However, final payments are not due until May.
- Actual revenue collections through January will be the basis of any decision to change the current forecast.

Next Steps

- January receipts will serve as the next critical data point in evaluating the outlook for the current fiscal year.
 - Withholding: January will have two less deposit days, so December and January must be analyzed together to accurately assess growth in this source.
 - Nonwithholding: December and January are significant months for collections in this source. Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2008. A clearer assessment of growth in this source will be possible at the end of January.
 - Sales: January receipts are needed to more accurately assess growth in this source because a large part of holiday sales occurred in December this year.
 - Corporate: The fourth estimated payment will be received from retailers and other companies with February-January taxable years.