



COMMONWEALTH of VIRGINIA

Office of the Governor

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January 13, 2002

MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: December Revenue Data

The Governor's Advisory Board of Economists and his Advisory Council on Revenue Estimates concurred with the current revenue forecast during their fall deliberations and recommended that it remain essentially unchanged. Through several policy actions taken in the Governor's introduced budget, projected growth in revenue for fiscal year 2003 is 1.0 percent, slightly more than the 0.8 percent growth underpinning the August interim forecast.

This month's revenue report displays the revised forecast released with the Governor's budget on December 20 in the first column and the growth rates required to attain the forecast in the last column.

Monthly revenue collections for December increased 17.0 percent from collections in December of last year. Monthly growth is distorted by comparison to a weak December last year, an additional deposit day, and the timing of corporate refunds.

Total general fund revenue collections through the first two quarters are 2.6 percent above collections for the same period last year, ahead of the annual forecast of 1.0 percent growth. Because an unusual number of estimated payment checks were received in December rather than in January, year-to-date collections are likewise difficult to assess. This month's revenue report highlights the need to combine December and January revenue collections in order to analyze general fund revenue trends in the largest sources.

National Economic Indicators

Current economic indicators continue to depict a weak economic recovery for the nation.

- No revisions were made to the third quarter GDP growth estimates of 4.0 percent. Within the quarter, most of the gains occurred in the beginning, with growth weakening toward the end.

- Income and spending growth remain steady. Total personal income has grown at 0.3 percent each month from August through November. Personal consumption expenditures grew 0.5 percent in November.
- After five months of flat or negative growth, the Conference Board's index of leading indicators rose in November. While the increase in the index is encouraging, the improvement in November merely regained the ground lost since May.
- Manufacturing activity unexpectedly picked up in December. The Institute of Supply Management index (formerly the NAPM) jumped to 54.7 percent in December, the highest point in six months and the first reading above 50.0 percent since August. The largest contributor to the increase was the new orders index, which indicates production will grow over the coming months.
- December payroll employment fell by 101,000 jobs, keeping unemployment at 6.0 percent, on top of a November decline of 88,000 jobs. In the first week of January, the four-week average of initial claims for unemployment insurance rose to 418,750. A steady level of initial claims around 400,000 is consistent with modest economic growth.
- The Conference Board's index of consumer confidence continues to fluctuate around its low point, with no sign of any significant improvement. After a moderate gain in November, the index fell in December. The decline was primarily concentrated in the index of present conditions, although expectations for the future also fell.

Virginia Economy

Economic indicators continue to depict a weak recovery in Virginia. Payroll employment fell 0.2 percent in November from a year ago, after a 0.3 percent decline in October. In Northern Virginia, November employment increased by 0.4 percent, the first gains in 13 months. The Virginia Employment Commission has begun its annual revisions to the last two years of payroll employment data, which will be available in February.

The Virginia Leading Index continues to point toward economic growth in the Commonwealth. The index rose slightly in December, the fifth consecutive month of positive growth.

December Revenue Collections

Revenue collections grew 17.0 percent from December of last year, largely due to an additional deposit day, the timing of estimated payments receipts, and comparison to last December, when revenue collections did not grow. On a year-to-date basis, total revenues rose 2.6 percent through December, ahead of the annual estimate of 1.0 percent growth.

Individual Income Tax Withholding (62% of general fund revenues): Collections in withholding grew 14.0 percent from December of last year. Two factors contributed to the strong growth. Collections in this source were very weak last December, declining by 1.0 percent over the previous year, and this December had an additional deposit day. Year-to-date withholding growth through December is 2.9 percent - slightly ahead of the annual estimate of 2.7 percent growth.

Individual Income Tax Refunds: Refunds this month were \$17.2 million compared with \$28.5 million in December of last year. Through the first half of the fiscal year, refunds are 25.1 percent below the same period last year, compared with the annual forecast of a 9.2 percent decline.

Individual Income Tax Nonwithholding (12% of general fund revenues): Collections in nonwithholding grew 24.2 percent from December of last year. Year-to-date collections in nonwithholding are down 0.8 percent - ahead of the forecast of a 13.2 percent decline.

December revenue growth is inflated by the timing of the nonwithholding receipts. Taxpayers have until January 15 to submit their fourth estimated payment for the tax year 2002. Payment patterns in prior years have shown large swings between December and January. In three of the last four years December and January have shown a flip-flop, higher growth-lower growth pattern between December and January. Higher growth in December has often meant lower growth in January and vice versa.

Much of the December growth can be explained by a 15 percent increase in the number of checks received, as well as a few large December estimated payments that were received last January instead. A more precise assessment of growth in this source will be available at the end of January, when all payments have been received.

Sales Tax (22% of general fund revenues): Collections of sales tax fell 11.9 percent from December of last year. Adjusting for the accelerated sales tax payments, collections in this source increased about 0.7 percent through December, well below the forecast of 2.7 percent growth. As with individual income tax, January receipts are needed to assess growth in this source since a large portion of holiday sales tax will be received in January.

Corporate Income Tax (3% of general fund revenues): Collections of corporate income tax surged in December -- \$84.3 million compared with \$18.5 million in December of last year. Monthly receipts are somewhat inflated because the majority of corporate refunds were issued in December last year, while this year most refund activity occurred in November. There was, however, strong underlying growth in this source. Gross payments in December, which include the final quarterly estimated payment of the tax year along with corporate extension returns for the prior tax year, were 38.5 percent higher than December of last year. Year-to-date, collections in this source are up 26.2 percent. January's receipts will include estimated payments by retailers whose taxable year ends January 31. These receipts combined with December collections will provide a complete picture on corporate income tax.

Other Revenue Sources

The following list provides data on December collections of other key taxes:

	Year-to-Date	Required to Meet Estimate
Insurance Premiums Tax (3% GF revenues)	13.3%	5.3%
ABC Taxes (1.1% GF revenues)	3.7%	0.0%
Interest Income (1.0% GF revenues)	-17.7%	-28.3%
Public Service Corporations (.9% GF revenues)	27.6%	8.2%

All Other Revenue. Revenue from all other sources grew 29.4 percent in December -- \$57.2 million compared with \$44.2 million in December of last year. The increase was driven by continued strength in collections of wills, suits, deeds and contract fees (primarily recordation taxes). On a year-to-date basis, collections of all other revenue were 23.2 percent above the same period last year, ahead of the annual forecast of 16.2 percent growth.

Lottery Revenues. In December, Lottery net income grew 0.3 percent more than last year on a 4.4 percent increase in sales due to slightly higher prize payouts. On a year-to-date basis, growth of 10.3 percent is above the amount needed to meet the current revenue estimate.

Summary

Total collections for the first half of fiscal year 2003 are 2.6 percent above collections for the same period last year, ahead of the annual estimate of 1.0 percent growth. As indicated previously, December and January collections should be viewed together in order to gain a more accurate assessment of revenue collections. In recent years, December revenues increased by double digit amounts, only to be followed by January collections that were flat or near zero.

The strong growth of 17.0 percent in total revenues in December was largely due to the timing of receipts in individual income taxes, an extra deposit day and an increase in collections of corporate income taxes. January collections will provide a clearer assessment of year-to-date revenue growth. Individual estimated payments are due January 15, and the bulk of sales tax receipts from the holiday shopping season will be collected in January.