



COMMONWEALTH of VIRGINIA
Office of the Governor

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MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Richard D. Brown *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 2009. The report incorporates the revised general fund revenue forecast included in the introduced budget. The revised forecast used with the budget introduced on December 17 reflects a further downward revision from the October 2008 forecast. With the downward revenue revisions in December, total general fund revenues are now projected to decline by 4.8 percent in fiscal year 2009.

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 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.

National 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. Losses for the prior two months were much greater than the preliminary data indicated, with an additional loss of 154,000 jobs. The labor market shed jobs every month in 2008, for a total loss of 2.59 million jobs. In a separate report, the unemployment rate rose to 7.2 percent from 6.8 percent, the highest rate since January 1993.
- Initial claims for unemployment fell by 24,000 to 467,000 during the week ending January 3, far fewer initial claims than expected, but not surprising given seasonal factors during the holiday season. The four-week moving average fell from 553,000 to 526,000, a level indicative of persistent weakening in the labor market.
- 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. Tight credit and weak demand are likely to constrain growth in this sector in the months to come.
- 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 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.

Virginia Economy

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, while the Richmond-Petersburg area shed jobs for the second month in a row, declining 0.6 percent. The unemployment rate rose from 4.2 percent to 4.6 percent in November.

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 leading index fell in all eleven metro areas in November.

December Revenue Collections

Despite two additional deposit days, general fund revenues fell 2.6 percent in December. On a year-to-date basis, revenues fell 3.5 percent, compared to the revised annual forecast of a 4.8 percent decline.

Net Individual Income Tax (67% of general fund revenues): Through the first six months of the fiscal year, net individual income tax increased 4.4 percent, ahead of the annual estimate of a 0.7 percent decline. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (62% of general fund revenues): With two additional deposit days, collections of payroll withholding taxes grew 12.7 percent in December. January will have two less deposit days, so December and January must be analyzed together to accurately assess growth in this source. Year-to-date withholding growth is 5.9 percent, ahead of the projected annual growth rate of 3.4 percent.

Individual Income Tax Nonwithholding (17% of general fund revenues): Collections in this source grew 3.2 percent in December. Through December, collections fell 0.7 percent compared with the annual estimate of an 8.4 percent decline.

December and January are significant months for collections in this source, and growth can be distorted by the timing of payments. 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, when all quarterly payments have been received.

Individual Income Tax Refunds: TAX issued \$58.9 million in refunds in December compared with \$43.5 million last December. The growth is primarily attributable to refunds related to overpayments. Over the first six months of the fiscal year, refunds have grown 18.0 percent compared with the forecast of an 8.1 percent increase.

Sales Tax (20% of general fund revenues): 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. 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 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.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 40.1 percent in the month of December, and are down 35.7 percent on a year-to-date basis as compared to the forecast of a 34.7 percent decline. Adjusted for the transfer of 3 cents of the 25 cents per \$100 recordation tax to the Commonwealth Transportation Fund, year-to-date collections are down 28.6 percent.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)*	-53.7%	-35.1%
Interest Income (1% GF revenues)	-41.8%	-36.2%
ABC Taxes (1% GF revenues)	1.7%	3.6%

**Monthly collections of insurance premiums are being transferred to the Transportation Trust Fund per HB 3202 until the required amount of \$132.3 million has been booked.*

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 12.9 percent in December – \$43.7 million compared with \$38.7 million last December. For the fiscal year-to-date, collections of All Other Revenue fell 26.7 percent from the same period in fiscal year 2008, trailing the annual estimate of a 24.2 percent decline. The large decline in year-to-date collections and the annual forecast is attributable to the repeal of the estate tax. The General Assembly repealed the tax effective July 1, 2007, and estates from deaths prior to that date had up to nine months to file.

The Honorable Timothy M. Kaine

January 13, 2009

Page 5 of 5

Lottery Revenues: Net income for December 2008 totaled \$38.5 million, a decline of 6.3 percent from December 2007. Year-to-date, net income is down 8.7 percent, trailing the annual estimate of a 5.4 percent decline. The decline in net income was a result of higher prize rates this December as compared to December 2007.

Summary

In December, general fund revenues fell 2.6 percent. On a year-to-date basis, revenues fell 3.5 percent compared to the revised annual forecast of a 4.8 percent decline.

The timing of payments in December and January can significantly affect growth rates when analyzed on a monthly basis. Individual estimated payments are due January 15, and the bulk of sales taxes from the holiday shopping season will be received in January. December and January receipts must be considered together to get a clearer picture of revenue growth.