



Revenue and Budget Update

A Briefing for the House Appropriations Committee

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Topics for Discussion

- National and State Economic Indicators
- December Year-to-Date Revenue Collections, Fiscal Year 2010
- Next Steps

National and State 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.
- 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.
- 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.
- The national unemployment rate remained unchanged at 10.0 percent in December.
- In November, payroll employment in Virginia fell 2.0 percent, the fifteenth consecutive monthly decline. However, the pace of declines has slowed since peaking this summer.
 - 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 December.
- The unemployment rate in Virginia was unchanged at 6.4 percent in November, and remains below the June high of 7.3 percent.

National and State Economic Indicators

- 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.
- The Conference Board's index of leading indicators rose 0.9 percent to 104.9 in November, its eighth consecutive monthly increase.
 - The growth in the index continue to indicate 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.
 - Although the gain is a positive indicator, confidence remains at historical lows.
- 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.
- 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.

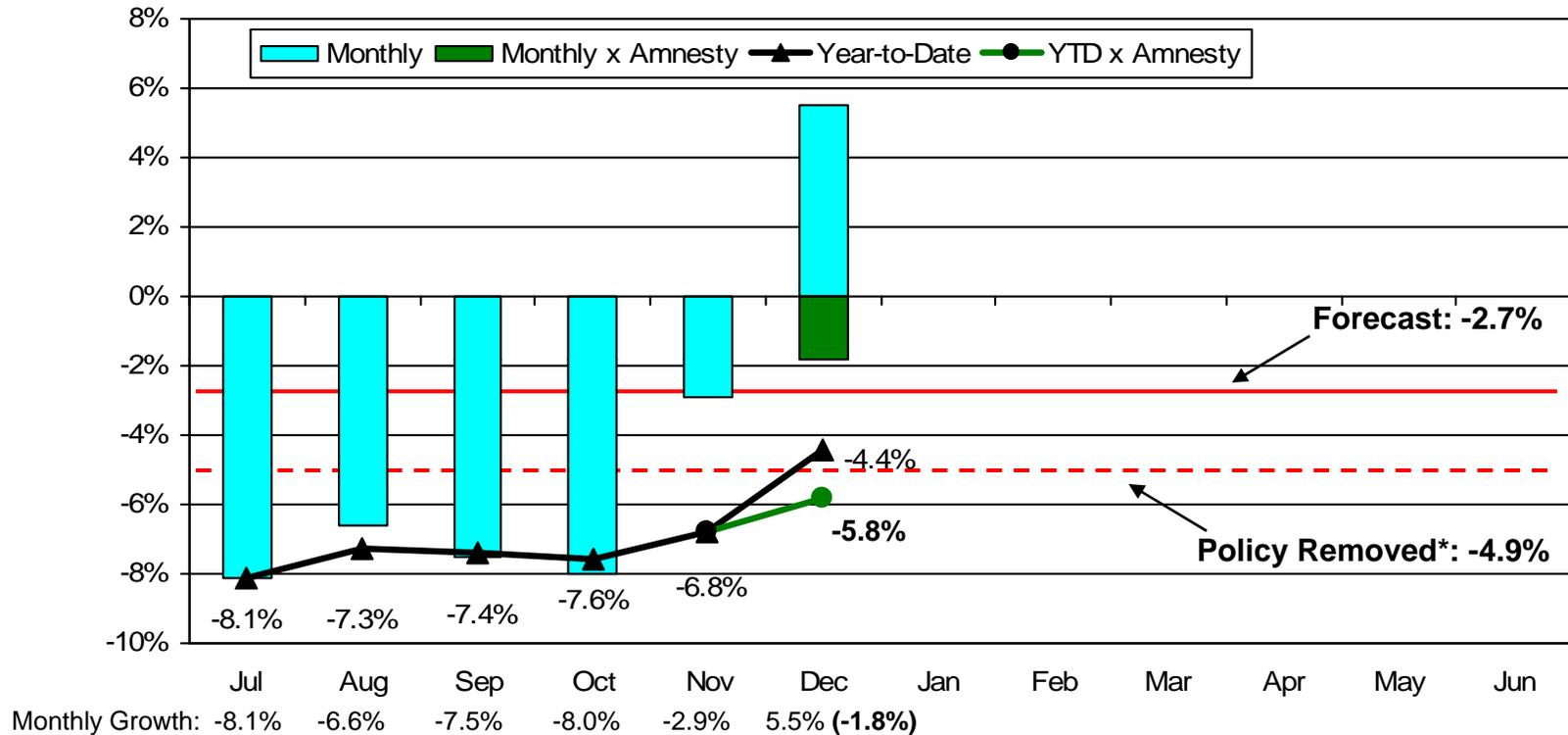
Forecast and Actual of Amnesty Collections for the General Fund

(Millions of Dollars)

	<u>December Estimate</u>	<u>Collections Through Dec</u>
Withholding	\$0.0	\$5.0
Nonwithholding	\$19.0	\$19.0
Sales	\$9.5	\$28.1
Corporate	\$43.0	\$37.0
Interest	<u>\$9.5</u>	<u>\$13.0</u>
Total	\$81.0	\$102.1

- Amnesty collections through December for the General Fund totaled \$102.1, \$21.1 million higher than the \$81.1 million estimated in the revised December forecast.
- Final amnesty collections should be available at the end of January as a small amount of accounts were outstanding as of December 31.

Growth in Total General Fund Revenue Collections FY10 Monthly and Year-to-Date

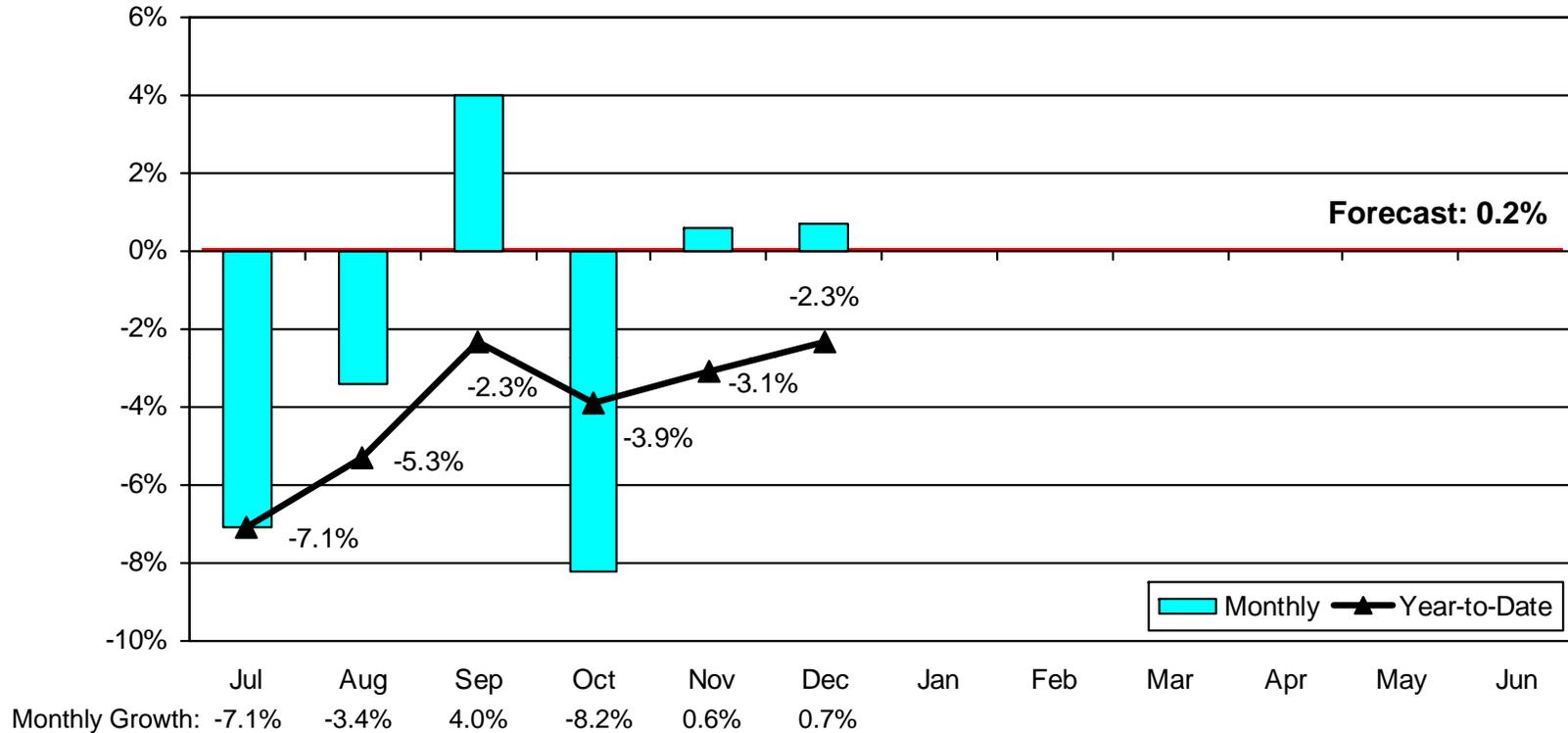


- Total general fund revenue collections grew 5.5 percent in December, the first positive monthly change in 16 months.
 - Removing amnesty revenues, revenues declined 1.8 percent for the month.
- On a year-to-date basis, total revenues fell 4.4 percent, trailing the revised annual forecast of a 2.7 percent decline.

* Major policy adjustments include amnesty and the accelerated sales tax program.

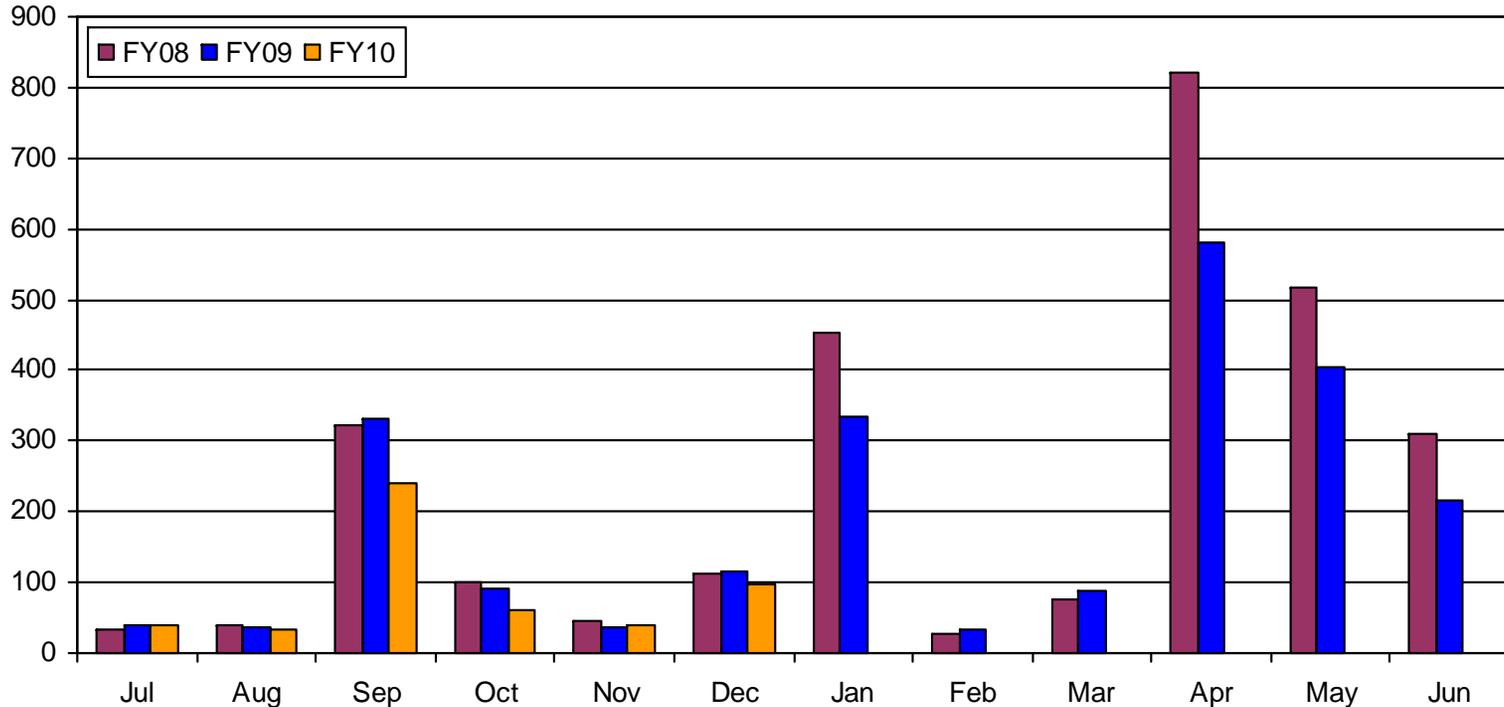
Growth in Withholding Tax Collections

FY10 Monthly and Year-to-Date



- Collections of payroll withholding taxes grew 0.7 percent in December.
- Year-to-date withholding collections declined by 2.3 percent over the same period last year, trailing the projected annual growth rate of a 0.2 percent increase.

Nonwithholding Tax Collections FY08-FY10 Monthly



- December and January are significant months for collections in this source, but the analysis of growth at this point is limited by the timing of payments.
 - Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2009.
 - A complete assessment of growth in this source will be available at the end of January, when all 2009 quarterly payments have been received.

- 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.

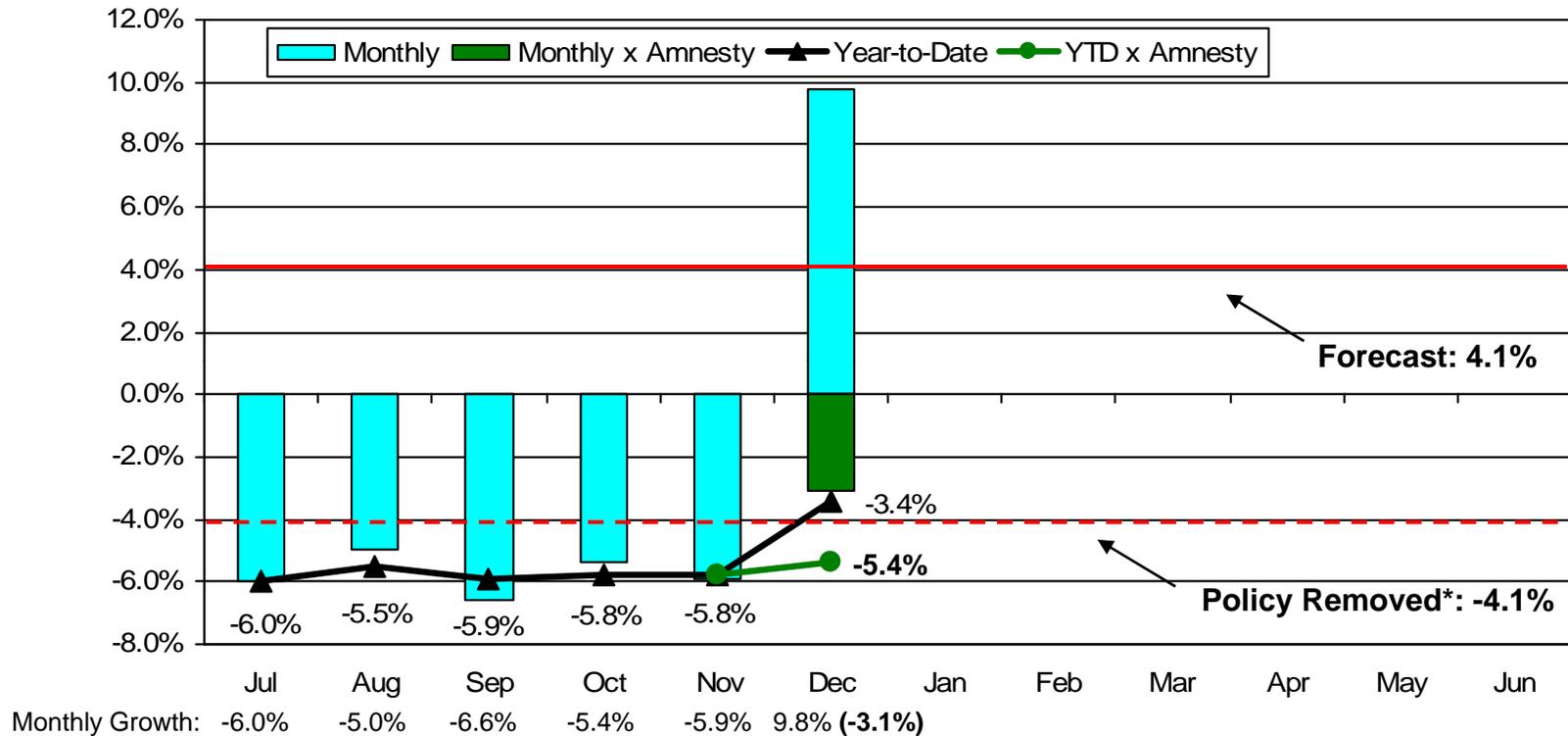
Individual Income Tax Refunds

- 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.
 - Activity through December, reflecting primarily high-income extension returns, illustrates the impact of the financial crisis in October 2008.

Net Individual Income Tax

- 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.

Growth in Sales Tax Collections FY10 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting November sales, rose 9.8 percent in December.
 - Adjusted for amnesty, 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 base forecast* of a 4.1 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.

* Major policy adjustments include amnesty and the accelerated sales tax program.

Corporate, Recordation, and Insurance Premium Tax Collections

- 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 compared to the forecast of 8.8 percent growth.
- After 43 consecutive monthly declines through October 2009, collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased for the second consecutive month.
- Collections of insurance premium taxes have declined 0.6 percent from the same period last year, below expectations of 0.2 percent growth.

Summary of Fiscal Year 2010 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	65.7 %	(2.3) %	0.2 %	(2.5) %
Nonwithholding	13.0	(18.6)	(21.5)	2.9
Refunds	(14.5)	24.1	2.6	21.5
Net Individual	64.3	(5.9)	(5.6)	(0.3)
Sales	21.7	(3.4)	4.1	(7.5)
Corporate	5.1	33.7	8.8	24.9
Wills (Recordation)	2.0	(0.9)	(9.6)	8.7
Insurance	1.8	(0.6)	0.2	(0.8)
All Other Revenue	5.1	(18.2)	(0.7)	(17.5)
Total	100.0 %	(4.4) %	(2.7) %	(1.7) %

Next Steps

- January receipts will serve as the next critical data point in evaluating the outlook for the current fiscal year.
 - Withholding: Monthly and quarterly filers are due.
 - 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.