



Revenue and Budget Update

A Briefing for the House Appropriations Committee

Richard D. Brown
Secretary of Finance
Commonwealth of Virginia
www.finance.virginia.gov

February 17, 2010

Topics for Discussion

- National and State Economic Indicators
- January Year-to-Date Revenue Collections, Fiscal Year 2010
- February Mid-Session Revenue Forecast Revisions

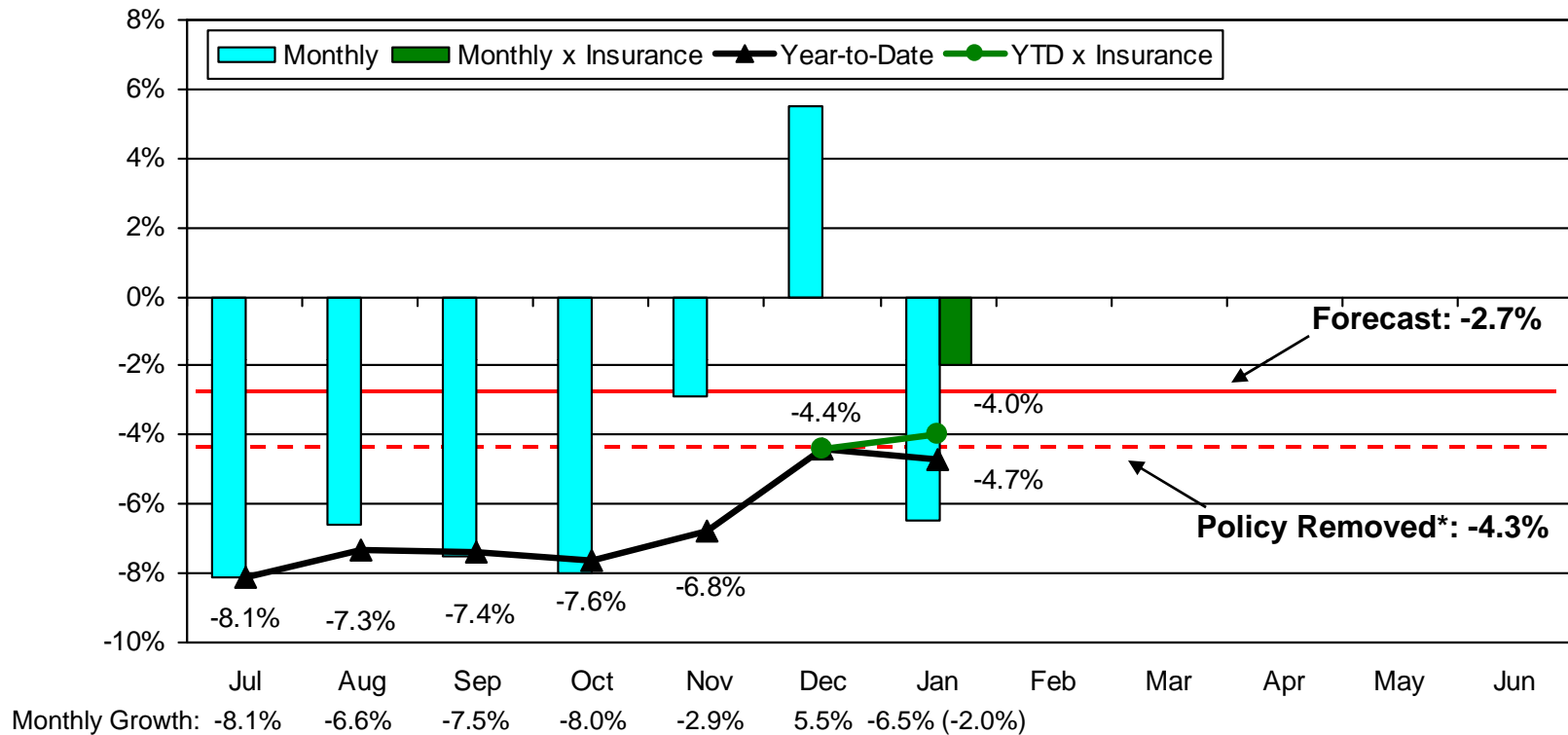
National and State Economic Indicators

- Most national indicators depict an expanding economy, although growth is expected to be sluggish over the rest of the year.
 - Gains in consumer spending are modest and consumers are likely to remain cautious given the current weak labor market conditions, tight credit, and depleted wealth. In addition, effects of the government stimulus package are waning.
- According to the advance estimate, real GDP grew 5.7 percent at an annual rate in the fourth quarter of 2009, the highest rate since the third quarter of 2003 and above expectations.
- Payroll employment was essentially unchanged in January, falling by 20,000 jobs. The November monthly gain was revised up from 4,000 to 64,000 jobs, and the December loss increased from 85,000 to 150,000 jobs.
 - The January employment report incorporates annual benchmark revisions – total payroll employment declined by 4.78 million in 2009 compared with the 4.16 million previously reported.
- The national unemployment rate fell 0.3 percentage point to 9.7 percent in January, even as the labor force slightly increased.
- Although Virginia employment continues to decline, the pace of job losses has slowed. Payroll employment fell by 1.5 percent in December, following a 2.0 percent decline in November, the sixteenth consecutive monthly drop.
 - Northern Virginia posted a loss of 0.1 percent, Hampton Roads fell 0.2 percent, and employment in the Richmond-Petersburg area fell 2.1 percent in December.
- The unemployment rate in Virginia rose from 6.4 percent to 6.7 percent in December, but remains below the June peak of 7.3 percent.

National and State Economic Indicators

- The recovery in the manufacturing sector continued in January. The Institute of Supply Management index rose from 54.9 to 58.4, the sixth consecutive month above the expansionary threshold of 50.0, and the highest reading since 58.5 in August 2004.
- The Conference Board's index of leading indicators rose 1.1 percent to 106.4 in December, its ninth consecutive monthly increase.
 - Eight of the ten components contributed positively to the index. The recent growth in the index strongly suggests the economy is expanding.
- The Conference Board's index of consumer confidence rose modestly from 53.6 to 55.9 in January, the third consecutive monthly gain.
 - Although confidence is at its highest level since September 2008, it remains at historical lows.
- Inflation remains low -- the CPI rose 0.1 percent in December from the previous month. Core inflation also rose 0.1 percent for the month and stands 1.8 percent above December of last year.
- The Virginia Leading Index was unchanged in December following seven consecutive gains. Initial claims for unemployment improved in December, offsetting the declines in building permits and auto registrations.
 - The leading index contracted in seven of the eleven metropolitan areas in the Commonwealth. The index expanded in Blacksburg, Bristol, Charlottesville, and Winchester.

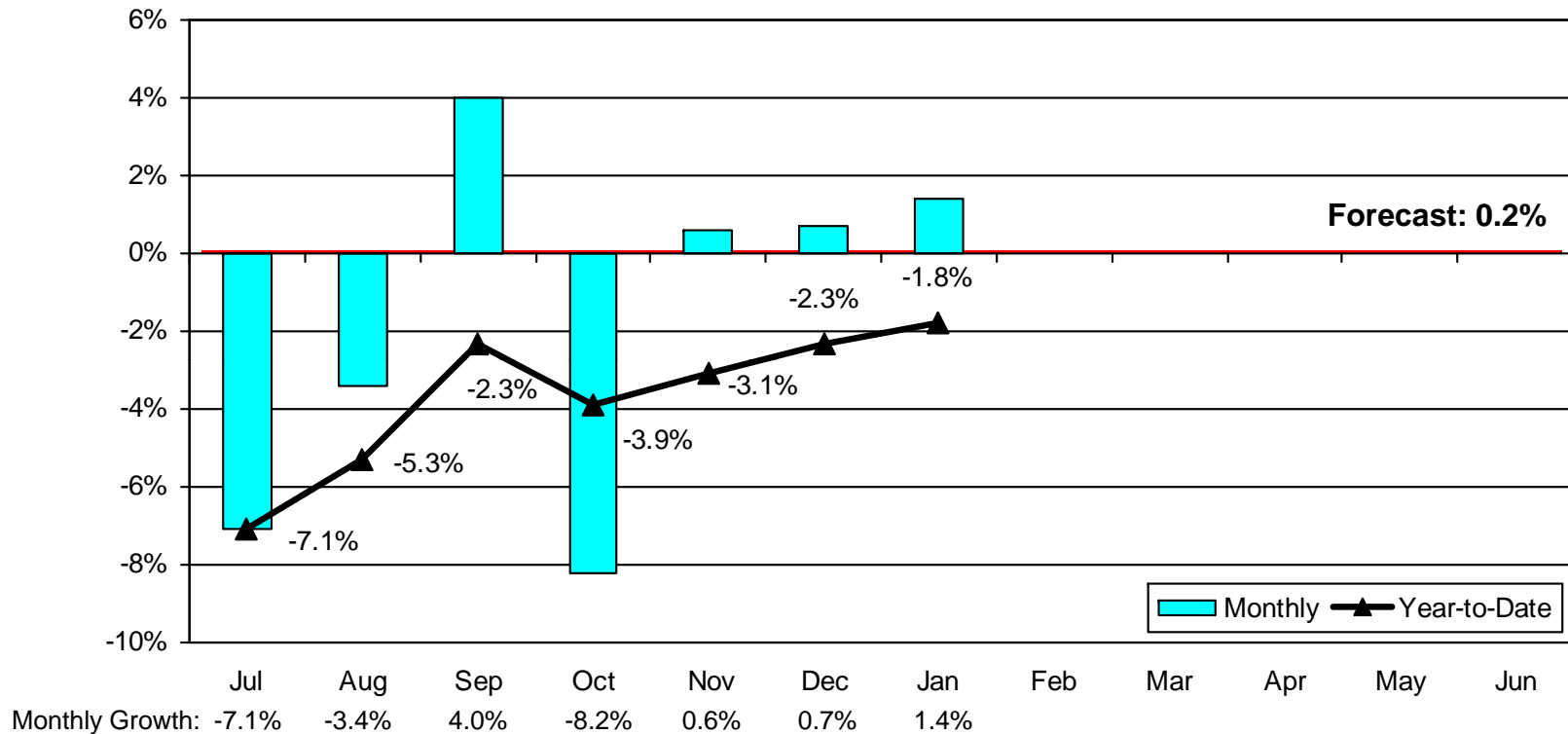
Growth in Total General Fund Revenue Collections FY10 Monthly and Year-to-Date



- Total general fund revenue collections fell 6.5 percent in January.
- Year to date, total revenues fell 4.7 percent, trailing the revised annual estimate of a 2.7 percent decline.
 - Adjusted for the shift in insurance refund issuance, collections declined 4.0 percent through January, trailing the policy-adjusted forecast of a 4.3 percent decline.

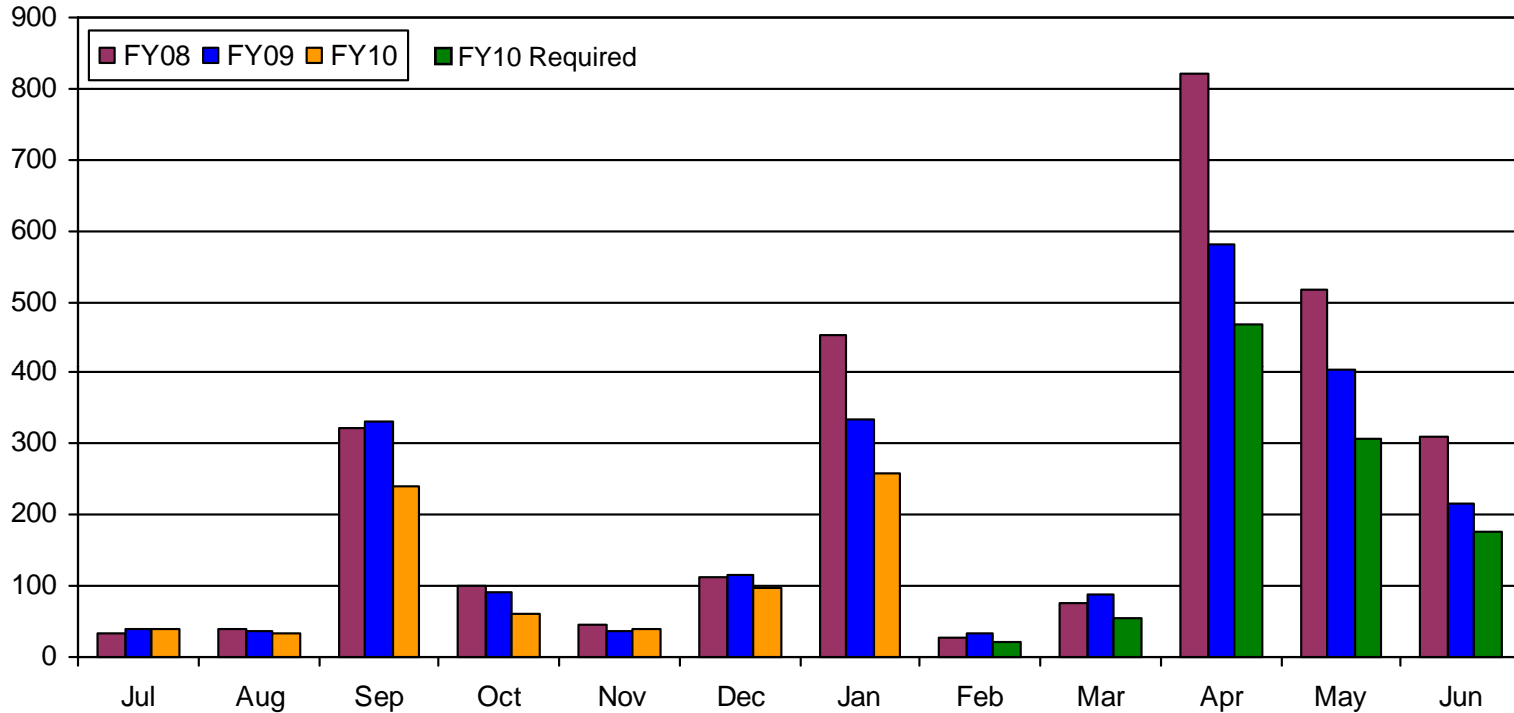
* Major policy adjustments include the accelerated sales tax program.

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



- Collections of payroll withholding taxes grew 1.4 percent in January.
- Year-to-date withholding collections declined by 1.8 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 and growth can be distorted by the timing of payments.
 - Receipts for the two-month period fell 17.0 percent from last year.
- Year to date, collections fell 20.0 percent from the same period last year, close to the revised annual estimate of a 21.5 percent decline.

Individual Income Tax Refunds

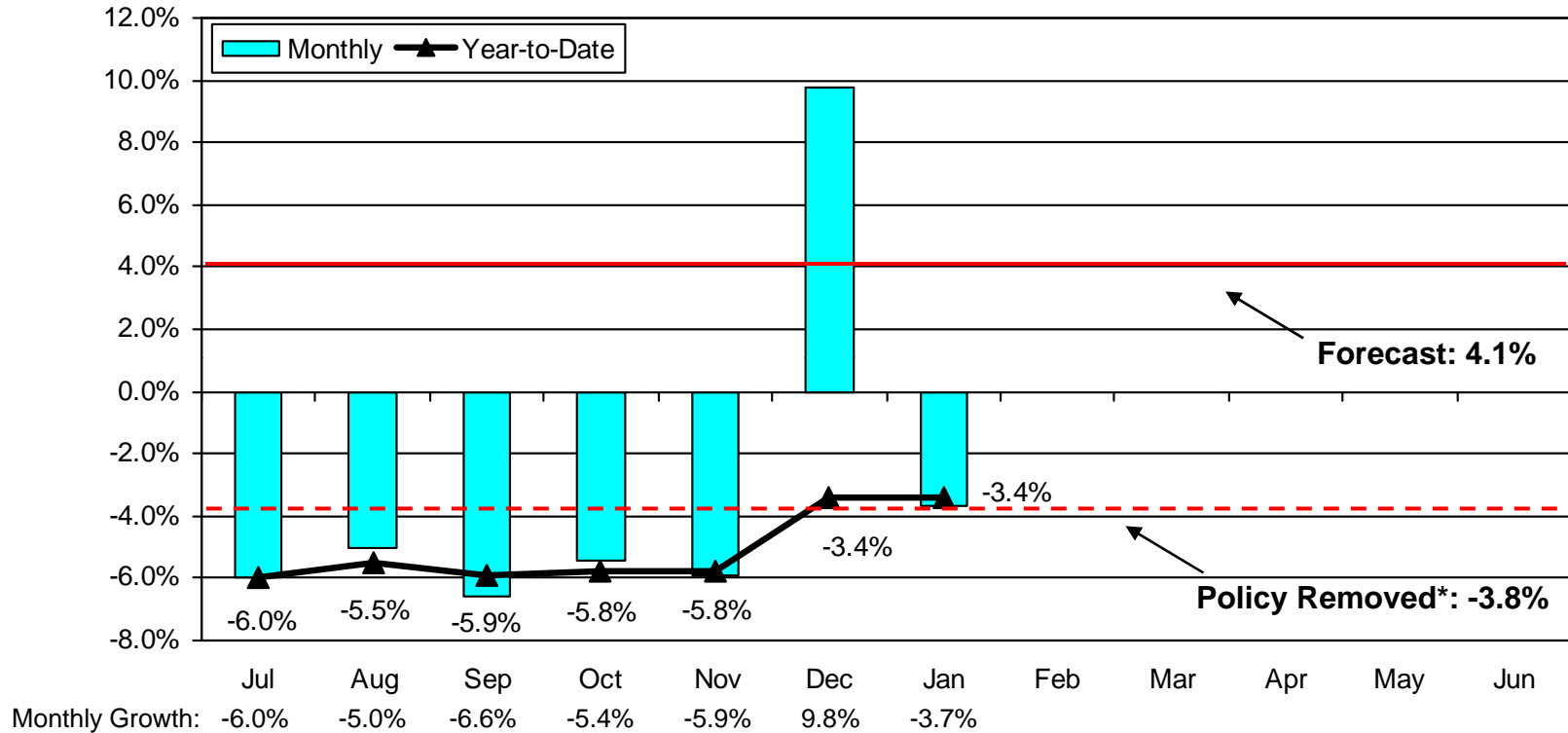
- After surging 24.1 percent ahead of the prior year through December, individual refund activity has begun to slow, with year-to-date growth halving to 12.0 percent through January, ahead of the annual estimate of 2.6 percent growth.
 - The first half surge was attributable to large, high-income refunds, illustrating the magnitude of the financial crisis in October 2008.

Net Individual Income Tax

- Through January, collections of net individual income tax fell by 5.7 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 December sales, fell 3.7 percent in January.
 - Taken together, collections of sales and use taxes (removing amnesty revenues) in December and January declined 3.1 percent, compared with the forecast of a 3.0 decline.
- On a year-to-date basis, collections have fallen 3.4 percent, compared with the annual estimate of 4.1 percent growth and the policy-adjusted forecast of a 3.8 percent decline.

* Major policy adjustments include the accelerated sales tax program.

Net Corporate Income Tax Collections

- Collections of corporate income tax were \$30.2 million in January, compared with \$20.8 million last January, a 45.3 percent increase.
- On a year-to-date basis, collections in this source have risen 34.5 percent, far ahead of the revised annual forecast of 8.8 percent growth.
 - Gross payments are on target, while refund activity has been weaker than anticipated.

Recordation Tax Collections

- Recordation tax collections declined 1.1 percent through January, ahead of the annual forecast of a 9.6 percent decline.
 - The January decline followed consecutive increases in November and December.
 - The November-December increases were due in part to the homebuyer tax credit and broke a streak of 43 consecutive monthly declines.

Insurance Premiums Tax

- Collections of taxes on insurance premiums were negative for the month of January and down 82.8 percent year to date.
 - The required transfer to the TTF was completed in December.
 - Refunds to insurance companies were then paid in January, while refunds were issued in February of last year.

Summary of Fiscal Year 2010 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	65.7 %	(1.8) %	0.2 %	(2.0) %
Nonwithholding	13.0	(20.0)	(21.5)	1.5
Refunds	(14.5)	12.0	2.6	9.4
Net Individual	64.3	(5.7)	(5.6)	(0.1)
Sales	21.7	(3.4)	4.1	(7.5)
Corporate	5.1	34.5	8.8	25.7
Wills (Recordation)	2.0	(1.1)	(9.6)	8.5
Insurance	1.8	(82.8)	0.2	(83.0)
All Other Revenue	5.1	(11.6)	(0.7)	(10.9)
Total	100.0 %	(4.7) %	(2.7) %	(2.0) %

Summary of Midsession Reforecast for Fiscal Year 2010, (millions of dollars)

<u>Major Source</u>	<u>Increase</u>	<u>No Change</u>	<u>Decrease</u>
Personal Income Tax:			
Withholding		\$0.0	
Nonwithholding		\$0.0	
<u>Refunds</u>			-\$13.1
Net Individual	+\$13.1		
Sales	+\$21.0 (Amnesty)		
Corporate	+\$67.4 (Refunds)		
Wills (Recordation)	+\$15.0		
Insurance			-\$13.0
<u>All Other Revenue</u>		\$0.0	
Total	\$103.5		

- Withholding and sales (87% of general fund revenues), the two revenue sources most closely linked to current economic activity in the Commonwealth, are tracking the December forecast.
- Individual and corporate refund activity has been slower than anticipated.
- The housing market in Virginia is outperforming December expectations.
- In total, year-to-date collection trends support adding \$103.5 million to the December forecast for fiscal year 2010.
 - For the next biennium, upward revisions total \$118.0 million.