



COMMONWEALTH of VIRGINIA
Office of the Governor

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

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 2011. The report incorporates the revised general fund revenue forecast included in the budget introduced on December 17. With the upward revision in December, total general fund revenues are now projected to grow by 3.5 percent in fiscal year 2011.

Total general fund revenue collections rose 2.0 percent in December. Adjusted for the 2009 amnesty program, collections grew 9.5 percent over December of last year. The monthly increase was driven by solid growth in withholding, sales taxes, and corporate income taxes, which continue to post modest monthly increases. On a year-to-date basis, total revenue collections rose 1.5 percent, trailing the annual forecast of 3.5 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 4.1 percent through December, lagging the economic-base forecast of 5.2 percent growth.

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, along with 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. In addition, the bulk of sales tax collections from the holiday shopping season will be received in January. Due to all of these factors, the months of December and January must be analyzed together to form a complete and

accurate assessment of revenue growth. Finally, the tax amnesty program, which ended in December 2009, makes year-over-year comparisons difficult in some major sources.

National Economic Indicators

Most national indicators suggest the economy is poised for faster growth in 2011.

- According to the final estimate, real GDP in the third quarter of 2010 grew 2.6 percent at an annualized rate, substantially stronger than the initial estimate of 2.0 percent. This marked the fifth consecutive quarter of growth since the recession officially ended in June 2009.
- Although the labor market remains weak, modest gains have been reported in recent months. Payroll employment rose by 103,000 jobs in December, the third consecutive monthly increase. In a separate report, the unemployment rate fell to 9.4 percent in December, largely due to a reduced labor force.
- Initial claims for unemployment increased by 18,000 to 409,000 during the week ending January 1, while the four-week moving average fell from 414,000 to 411,000. The initial claims data are consistent with a stagnant job market.
- The Conference Board's index of leading indicators rose 1.1 percent in November, its fifth consecutive monthly increase. Nine of the index's 10 components increased in November, while building permits were a drag on growth. The small gain in the index suggests the pace of the recovery will pick up in coming months.
- The Conference Board's index of consumer confidence unexpectedly dropped 1.8 points in December to 52.5. Both the expectations and current conditions components declined. Although the index remains at a very low level, it remains above its September 2010 low.
- The expansion in the manufacturing sector picked up in December. The Institute of Supply Management index rose from 56.6 to 57.0 in December. This is the second increase in the past three months and marks the highest level since May. This month's report suggests solid growth continues in the manufacturing industry and that economic growth accelerated in the fourth quarter.
- Inflation remains low – the CPI increased 0.1 percent in November from the previous month. Core inflation (excluding food and energy prices) rose 0.1 percent in November after three consecutive months of zero inflation. The index stands 1.1 percent above November of last year.
- The Federal Reserve announced at its November meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent. In addition, quantitative easing will be expanded by purchasing long-term treasury securities.

Virginia Economy

In Virginia, employers added jobs for the fifth consecutive month in November. Payroll employment in the Commonwealth grew 1.4 percent in November from November of last year. The pace of growth was modest in Northern Virginia and Hampton Roads, while job losses are slowing in Richmond-Petersburg. Compared with November of last year, Northern Virginia posted a gain of 0.4 percent, Hampton Roads grew 1.1 percent, and Richmond-Petersburg fell 0.1 percent. The unemployment rate rose from 6.5 percent to 6.6 percent in November, but remains well below the peak of 7.8 percent in February.

The Virginia Leading Index rose 0.6 percent in November, and has increased in eight of the last twelve months. As with the U.S. leading index, all of the components improved in November except for building permits. The Leading Index rose in all eleven Virginia metro areas in November.

December Revenue Collections

December and January are significant months for revenue collections and seasonal factors often distort growth. In addition, the tax amnesty program in December of last year is affecting growth in some major sources.

Total general fund revenue collections rose 2.0 percent in December. Adjusted for the amnesty program, December growth was 9.5 percent. On a year-to-date basis, total revenue collections rose 1.5 percent, behind the annual forecast of 3.5 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 4.1 percent through December, lagging the economic-base forecast of 5.2 percent growth.

Net Individual Income Tax (66% of general fund revenues): Through the first six months of the fiscal year, collections of net individual income tax rose 5.2 percent from the same period last year, trailing the annual estimate of 6.5 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): Collections of payroll withholding taxes grew 3.9 percent in December. This marked the eighth consecutive month of growth in this source. Year-to-date withholding collections grew 5.1 percent compared with the same period last year, ahead of the projected annual growth rate of 3.4 percent.

Individual Income Tax Nonwithholding (14% of general fund revenues): Collections in this source fell 10.5 percent in December. Adjusted for amnesty, nonwithholding receipts grew 7.0 percent for the month. Year-to-date, collections through the first half of the fiscal year declined 6.0 percent from the same period last year, compared with the revised annual estimate of 10.9 percent growth.

December and January are significant months for collections in this source, and results can be distorted by the timing of payments. Taxpayers have until January 15 to submit

their fourth estimated payment for tax year 2010. A clearer assessment of growth in this source will occur at the end of January, when all quarterly payments have been received.

Individual Income Tax Refunds: TAX issued \$47.1 million in refunds in December compared with \$58.4 million last December. Over the first six months of the fiscal year, refunds have fallen 14.8 percent from the same period last year, compared with the annual estimate of a 3.6 percent decline.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting November sales, fell 3.3 percent in December. Adjusted for amnesty, receipts increased 8.6 percent for the month. On a year-to-date basis, collections have fallen 8.6 percent. The large year-to-date decline is due to the accelerated sales tax program in fiscal year 2010, which required dealers to remit July payments in June. Adjusting for this policy initiative, sales tax collections have grown by 4.0 percent year-to-date, lagging the economic-base forecast of a 5.5 percent increase.

Corporate Income Tax (5% of general fund revenues): December is a significant month for collections in this source as quarterly estimated payments are due from most corporations. Collections of corporate income tax were \$142.8 million in December, compared with \$138.1 million last December, a 3.4 percent increase. Adjusted for amnesty, corporate collections grew 41.2 percent from December 2009. On a year-to-date basis, collections in this source have fallen 3.9 percent, behind the estimate of a 3.1 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 8.2 percent in December, the fifth consecutive month of growth in this source. On a year-to-date basis, collections are down 1.1 percent, ahead of the forecast of a 5.6 percent decline.

Insurance Premiums (2% of general fund revenues): Collections of taxes on insurance premiums grew 7.2 percent in December from December 2009. Chapter 896 of the 2007 Acts of the Assembly required that \$130.3 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2011 before any deposits to the general fund could be made. The required transfer was completed and December was the first month this year that collections in this source were deposited into the general fund.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (1% GF revenues)	-29.0%	-20.7%
ABC Taxes (1% GF revenues)	2.6%	1.2%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 18.4 percent in December – \$29.1 million compared with \$24.6 million last December. For the fiscal year, collections of All Other Revenue grew 7.1 percent from the same period in fiscal year 2010, ahead of the annual estimate of 3.6 percent growth.

Summary

Total general fund revenue collections rose 2.0 percent in December; however, the tax amnesty program in December 2009 is distorting growth. Adjusted for the amnesty program, collections grew 9.5 percent in December from last December. On a year-to-date basis, total revenue collections rose 1.5 percent, lagging the annual forecast of 3.5 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 4.1 percent through December, behind the economic-base forecast of 5.2 percent growth. Because a number of factors can influence the flow of payments and monthly growth rates this time of year, December and January receipts must be considered together to get a clearer picture of revenue growth.